

**COLLECTIVE EXHIBIT E**  
**[COMMITMENT LETTER AND JEA AUDITED FINANCIALS]**



July 10, 2003

Mr. John W. Williams, President  
Jackson Energy Authority  
119 East College Street  
Jackson, TN 38301

Dear John,

I am pleased to advise you that we have established a \$1 million line of credit in the name of Jackson Energy Authority Telecommunications Division. At your request, borrowings under the line will be limited to those certain operating expenses allocated to the telephone unit as outlined in your pro-forma.

The line will be unsecured. The rate on the line will be the Prime Rate less 65 bps. The initial maturity of the line will be September 30, 2004. Interest will be due monthly.

We do appreciate this additional opportunity to serve JEA. Please contact me should you have any questions or comments.

Best regards,

A handwritten signature in black ink, appearing to read "G. Grisham".  
Gary M. Grisham

P. O. Box 189, Jackson, TN 38302  
(731)984-6026

***JACKSON ENERGY AUTHORITY  
ELECTRIC DIVISION***

**Jackson, Tennessee**

**Financial Statements and Supplementary Information**

**Years Ended June 30, 2002 and 2001**

# **JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**

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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Elizabeth A. Agree, CPA  
Dale Cavaness, CPA  
C. Mickey Hannon, CPA  
John E. Hudson, CPA  
Tony R. Jones, CPA

S. Lawson Crain, CPA  
R. Thomas Crenshaw, CPA  
Mark M. Layne, CPA  
Katherine G. Watts, CPA  
Anita C. Hamilton, CPA

Amy K. Santaniello, CPA  
Jason T. Shanes, CPA  
Tamara H. Stanfill, CPA  
Karen L. Taylor, CPA  
Trenton D. Watrous, CPA, CVA  
Roger D. Worrell, CPA

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Jackson Energy Authority  
Jackson, Tennessee

We have audited the balance sheets of Jackson Energy Authority – Electric Division and Jackson Utility Division – Electric System as of June 30, 2002 and June 30, 2001, respectfully, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements as of and for the period ended June 30, 2002 present only Jackson Energy Authority – Electric Division and are not intended to present the combined financial position or combined results of operations of Jackson Energy Authority.

As discussed in Note 1, the financial statements as of and for the period ended June 30, 2001 present only the Jackson Utility Division – Electric System and are not intended to present the financial position or results of operations of the City of Jackson, Tennessee, or of any other proprietary or similar trust fund types.

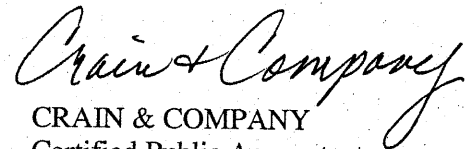
As discussed in Note 16 to the financial statements, the Authority adopted and implemented Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, during the fiscal year ended June 30, 2002.

Independent Auditors' Report  
(Continued)

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Jackson Energy Authority - Electric Division and Jackson Utility Division - Electric System as of June 30, 2002 and June 30, 2001, respectfully, and the results of their operations and their cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated September 6, 2002 on our consideration of Jackson Energy Authority - Electric Division's and Jackson Utility Division - Electric System's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information listed as supplemental information and Management's Discussion and Analysis (MD&A) in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Jackson Energy Authority - Electric Division or Jackson Utility Division - Electric System. The MD&A and Historical Pension Information are required by the GASB, upon which we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation, however, we did not audit the information and express no opinion on it. The other supplemental information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

  
CRAIN & COMPANY  
Certified Public Accountants

Jackson, Tennessee  
September 6, 2002

**Jackson Energy Authority**  
**Management's Discussion and Analysis**  
**June 30, 2002**

**Required Financial Statements**

The Financial Statements of the Jackson Energy Authority report information using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about the Authority's activities. The Balance Sheet includes all of the Energy Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the Energy Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the operations over the past year and can be used to analyze the results of the Energy Authority's operation. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash position resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, for what was cash used, and what was the change in cash balance during the reporting period.

This section of the annual financial report presents our analysis of the Electric Division's financial performance during the Fiscal Year that ended June 30, 2002. It should be read in conjunction with the financial statements and notes that follow this section.

**Financial Highlights**

- Electric Division net assets increased \$4.5 million or 8.06 % over the prior year.
- Total long-term debt decreased by \$1.4 million to \$16.3 million.
- Operating expenses decreased by 1.51% from \$89.0 million in fiscal 2001 to \$87.6 million in fiscal 2002.

Fiscal year 2002 is the first period that the Energy Authority applied Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Energy Authority has restated prior periods for purposes of providing comparative data for the Management's Discussion and Analysis. Statement No. 34 requires recording of certain capital assets, and in accordance with the Statement, the Electric Division has increased net assets as of July 1, 2000 by \$1,484,019 to record donated capital assets. The change also grew the increase in net assets by \$824,405 for the period ended June 30, 2001.

**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

**Financial Analysis**

The following table summarizes the changes in Net Assets between June 30, 2001 and 2002:

**Electric Division** (in thousands of dollars):

	<u>2002</u>	<u>2001</u>	<u>% change</u>
Current and Other Assets	\$24,715	\$27,931	(11.51%)
Capital Assets	<u>69,033</u>	<u>63,698</u>	<u>8.38%</u>
<b>Total Assets</b>	<b><u>93,748</u></b>	<b><u>91,629</u></b>	<b><u>2.31%</u></b>
Long-Term Debt	16,319	17,724	(7.93%)
Other Liabilities	<u>16,976</u>	<u>17,963</u>	<u>(5.49%)</u>
<b>Total Liabilities</b>	<b><u>33,295</u></b>	<b><u>35,687</u></b>	<b><u>(6.70%)</u></b>
Invested in Capital Assets, Net of Related Debt	51,424	44,910	14.50%
- Restricted	1,416	3,712	(61.85%)
- Unrestricted	<u>7,613</u>	<u>7,320</u>	<u>4.00%</u>
<b>Total Net Assets</b>	<b><u>\$60,453</u></b>	<b><u>\$55,942</u></b>	<b><u>8.06%</u></b>

The table indicates that the largest portion of the Electric Division's net assets (85.1%) represents its investment in capital assets (e.g. land and easements, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. Another significant portion of the Division's net assets is \$7.6 million in unrestricted net assets, which may be used to meet ongoing obligations.

Net assets of the Electric Division increased by \$4.5 million during the current fiscal year. This increase reflects capital assets financed primarily from equity, a major component of which came from capital contributions. The increase in the Division's capital assets was \$5.3 million in fiscal year 2002. Current and other assets decreased by \$3.2 million to \$24.7 million in fiscal year 2002 from \$27.9 million in fiscal year 2001.

**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

The following table summarizes the variances in the Statement of Revenues, Expenses and Changes in Net Assets between fiscal years 2001 and 2002:

**Electric Division** (in thousands of dollars):

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Operating Revenues	\$92,281	\$92,462	(0.20%)
Operating Expenses	87,609	88,950	(1.51%)
Net Operating Income	4,672	3,512	33.03%
Interest income & other	242	605	(60.00%)
Interest expense	612	773	(20.83%)
Income before Contributed Capital	4,302	3,344	28.65%
Capital Contributions	209	824	(74.64%)
Change in Net Assets	4,511	4,168	8.23%
Total Net Assets – beginning as restated	<u>55,942</u>	<u>51,774</u>	<u>8.05%</u>
Total Net Assets – ending, as restated	<u>\$60,453</u>	<u>\$55,942</u>	<u>8.06%</u>

A close examination of the Statement of Revenues, Expenses, and Changes in Net Assets reveals that even with the effects of a softening economy, the Electric Division's revenues only dropped \$181,000 from the prior year. The Division's scheduled rate increase of 2.9% prevented what could have been a much greater fall. More than 30% of the Division's long-term liabilities have been financed through variable rate debt. This strategy proved to be advantageous during this historically low interest rate market. Because of this move, interest expense was almost \$161,000 lower in fiscal year 2002 than it was in fiscal year 2001.

**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

**Utility Plant and Debt Administration**

The Electric Division's net utility plant increased \$5.3 million from \$63.7 million in fiscal year 2001 to \$69.0 million in fiscal year 2002. This investment in capital assets includes land and easements, infrastructure, structures and improvements, vehicles and equipment, general office furniture & fixtures, and construction in progress.

Major capital expenditures during the fiscal year included the following:

- Renovation of Short Street Substation
- Addition of 2<sup>nd</sup> 161 kV transformer at Owens-Corning (Phase 2)
- Improvements to Madison West Switching Station
- Installation of Moize Creek 161 12.45kV Substation

At June 30, 2002, the Electric Division had long-term debt outstanding of \$16.3 million compared to \$17.7 million in the prior year. This amount is comprised of \$1.6 million in notes payable to AmSouth and Southwest Electric and \$14.7 million in revenue and revenue refunding bonds. During the year, retirement of debt amounted to \$1.3 million. There were no additions or other adjustments. A total refunding of all outstanding long-term debt is planned to occur in fiscal year 2003. This refunding is necessary to acquire outstanding debt from the City of Jackson, pursuant to Chapter No. 55 of the Private Acts, 2001.

**Currently Known Facts, Decisions or Conditions**

Since the late 1930's the Authority has purchased all electricity for its consumers from the Tennessee Valley Authority. TVA has been, and continues to be, an extremely reliable and low cost provider of electricity, being among the lowest in the nation in electricity costs.

National Energy Policy legislation along with Federal deregulation of the electric industry looms on the horizon as an influence in the way the electric industry operates. Important in this legislation is the treatment of the Tennessee Valley Authority. Current versions of legislation contain a 'consensus agreement', jointly developed by TVA and its power distributors. The agreement provides for fair treatment of TVA and the distributors. Any deregulation legislation is not likely to pass until at least 2003.

TVA is developing a program that will allow the Authority and other power distributors of TVA to enter into long-term pre-purchase power contracts. These contracts will have terms of up to 20 years and will secure the electric supply for the Authority, in addition to providing savings on power purchased under the contracts.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION****BALANCE SHEETS**

	ASSETS	
	June 30,	
	2002	2001
<b>Current assets</b>		
Cash and cash equivalents	\$ 10,508,884	\$ 12,952,386
Accounts receivable - customers (less allowance for uncollectible accounts of \$556,060 and \$435,811 for 2002 and 2001, respectively)	9,440,074	8,060,785
Current maturities of long-term notes receivable	39,000	128,000
Accrued interest receivable	417	1,173
Prepaid expenses and other	207,450	235,711
Materials and supplies	754,420	771,449
Total current assets	20,950,245	22,149,504
<b>Restricted assets</b>		
Debt service fund - cash equivalents	1,252,828	1,238,618
Construction fund - cash equivalents	382,256	2,709,197
Revenue fund - cash equivalents	17,500	17,500
Construction escrow - cash equivalents	5,287	185,341
Total restricted assets	1,657,871	4,150,656
<b>Utility plant - at cost</b>		
Electric plant in service and equipment	98,887,423	92,650,840
Less: accumulated depreciation	37,236,352	34,918,868
	61,651,071	57,731,972
Construction in progress	7,382,001	5,965,686
Utility plant - net	69,033,072	63,697,658
<b>Other assets</b>		
Investment - The Tennergy Corporation	(103,274)	(20,542)
Investment - Utilicor	467,400	-
Investments - Rescue House	10,000	10,000
Long-term notes receivable (less current maturities included above)	157,813	174,147
Unamortized bond issue cost	151,439	160,910
Deferred cost - GIS project	1,002,547	1,103,839
Reimbursable cost - Technology Park	421,175	202,618
Total other assets	2,107,100	1,630,972
Total assets	\$ 93,748,288	\$ 91,628,790

## LIABILITIES AND NET ASSETS

	June 30,	
	2002	2001
<b>Liabilities</b>		
Current liabilities (payable from current assets)		
Current portion of long-term notes payable	409,671	\$ 476,253
Accounts payable	13,724,670	14,871,897
Other accounts payable and accrued expenses	<u>1,534,269</u>	<u>1,457,086</u>
Total current liabilities (payable from current assets)	<u>15,668,610</u>	<u>16,805,236</u>
Current liabilities (payable from restricted assets)		
Accrued revenue bond interest	218,940	236,348
Current portion of revenue bonds (net of discount of \$31,334 and \$34,062 for 2002 and 2001, respectively)	<u>1,088,666</u>	<u>920,938</u>
Total current liabilities (payable from restricted assets)	<u>1,307,606</u>	<u>1,157,286</u>
Long-term liabilities		
Notes payable (less current portion)	1,572,454	1,919,612
Revenue bonds payable (net of current portion, net of discount of \$236,138 and \$267,472 for 2002 and 2001, respectively and net of loss on refunding of \$227,201 and \$257,997 for 2002 and 2001 respectively)	<u>14,746,661</u>	<u>15,804,531</u>
Total long-term liabilities	<u>16,319,115</u>	<u>17,724,143</u>
Total liabilities	<u>33,295,331</u>	<u>35,686,665</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	51,423,701	44,910,358
Restricted for capital projects	382,256	2,709,197
Restricted for debt service	1,033,788	1,002,270
Unrestricted	<u>7,613,212</u>	<u>7,320,300</u>
Total net assets	<u>60,452,957</u>	<u>55,942,125</u>
 Total liabilities and net assets	 <u>\$ 93,748,288</u>	 <u>\$ 91,628,790</u>

See accompanying notes to financial statements.



**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS**

	Years Ended June 30,	
	2002	2001
Operating revenue	<u>\$ 92,281,162</u>	<u>\$ 92,461,773</u>
Operating expenses		
Purchased power	74,901,570	76,666,666
Operating expenses (Scheduled)	5,514,125	5,256,418
Maintenance expenses (Scheduled)	1,510,059	1,586,730
Provision for depreciation (less \$353,506 and \$351,269 for 2002 and 2001, respectively, allocated elsewhere)	3,530,903	3,380,192
Taxes, payroll	293,674	267,124
Tax equivalent	<u>1,858,665</u>	<u>1,793,236</u>
Total operating expenses	<u>87,608,996</u>	<u>88,950,366</u>
Net operating income	<u>4,672,166</u>	<u>3,511,407</u>
Non-operating revenue (expenses)		
Interest and other income	241,897	605,435
Interest, amortization and other expense	<u>(612,441)</u>	<u>(772,776)</u>
Total non-operating revenue (expenses)	<u>(370,544)</u>	<u>(167,341)</u>
Income before contributions	4,301,622	3,344,066
Capital contributions	<u>209,210</u>	<u>824,405</u>
Change in net assets	4,510,832	4,168,471
Net assets – beginning of year, as restated	<u>55,942,125</u>	<u>51,773,654</u>
Net assets – end of year, as restated	<u>\$ 60,452,957</u>	<u>\$ 55,942,125</u>

See accompanying notes to financial statements.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2002	2001
Cash provided by (used for) operating activities:		
Receipts from customers	\$ 90,557,207	\$ 93,702,651
Payments to suppliers	(79,360,302)	(78,453,694)
Payments to employees	(3,190,240)	(3,290,328)
Tax equivalent expense paid to City of Jackson	(1,858,665)	(1,793,236)
Net cash provided by operating activities	6,148,000	10,165,393
Cash provided by (used for) noncapital and related financing:		
TVA advances (net increase)	(126,366)	(79,782)
Cash provided by (used for) investing activities:		
Interest income	286,742	652,587
Net cash provided by investing activities	160,376	572,805
Cash provided by (used for) capital and related financing activities:		
Purchase of property, plant, and equipment	(8,873,801)	(8,096,159)
Removal cost	(108,952)	(88,572)
Proceeds from sale and salvage	96,851	144,132
Gain on sale of fixed assets	38,643	-
Payment of capital lease obligations	(38,890)	(21,105)
Interest expense	(549,904)	(705,896)
Principal payments on notes payable	(262,637)	(310,940)
Bond debt expense paid	(6,308)	(65,348)
Principal payments on bonds payable	(955,000)	(910,000)
Deferred cost - GIS project	101,292	(15,307)
Reimbursable cost - Technology Park	(218,557)	-
Proceeds from issuance of new bonds	-	5,563,600
Purchase of investment in Utilicor	(467,400)	-
Net cash used for capital financing activities	(11,244,663)	(4,505,595)
Increase (decrease) in cash and cash equivalents	(4,936,287)	6,232,603
Cash and cash equivalents - beginning of year	17,103,042	10,870,439
Cash and cash equivalents - end of year	\$ 12,166,755	\$ 17,103,042
Non-cash disclosure:		
Equipment acquired in capital lease	\$ 13,740	\$ 79,255
Contributed capital assets	\$ 209,210	\$ 824,405

	Years Ended June 30,	
	2002	2001
Cash provided by (used for) operating activities:		
Operating income	\$ 4,672,166	\$ 3,511,407
Adjustments to reconcile net operating income to cash flows from operations:		
Depreciation and amortization	3,773,439	3,675,222
Provision for doubtful accounts	450,000	500,004
Changes in operating assets and liabilities:		
Receivables	(1,829,289)	1,155,186
Materials and supplies	17,029	(108,222)
Prepays and other current assets	28,261	5,070
Notes receivable - TVA	105,334	85,691
Accounts payable	(1,147,227)	1,045,421
Other payables and accrued expenses	78,287	295,614
Net cash provided by operating activities	<u>\$ 6,148,000</u>	<u>\$ 10,165,393</u>

See accompanying notes to financial statements.

**JACKSON ENERGY AUTHORITY – ELECTRIC DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2002 and 2001**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Jackson Energy Authority (The Authority) - Electric Division (The Division) was formed July 1, 2001 pursuant to Chapter No. 55 of the Private Acts, 2001 cited as the Jackson Energy Authority Act and, as such, is a political subdivision of the State of Tennessee. The legislation creating the Authority amended the acts that established Jackson Utility Division. The Authority was created as a separate legal entity for the purpose of planning, acquiring, constructing, improving, furnishing, equipping, financing, owning, operating, and maintaining electric, gas, water, wastewater, and telecommunications utilities systems within or outside the corporate limits of the City of Jackson, Tennessee and other such utility systems as a municipal water, wastewater, gas, telecommunications or electric utility is authorized by the general laws of the State of Tennessee to own or operate. Upon creation of the Authority, the City of Jackson was authorized to transfer to the Authority all its rights, title and interest in and to all the assets operated for the City by Jackson Utility Division. The accompanying financial statements present the financial position, results of operations and cash flows of Jackson Energy Authority – Electric Division as of and for the period ended June 30, 2002 and of Jackson Utility Division – Electric System as of and for the period ended June 30, 2001.

**Fund Accounting**

Jackson Energy Authority – Electric Division uses enterprise fund accounting. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Jackson Utility Division – Electric System was an enterprise fund of the City of Jackson, Tennessee, and as such was an integral part of the City of Jackson.

The Division complies with Generally Accepted Accounting Principles (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Division applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. As allowed by GASB, the Division has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

**Basis of Accounting**

Basis of Accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Jackson Energy Authority – Electric Division uses and Jackson Utility Division – Electric System used the accrual basis of accounting. Accrual basis of accounting requires the recognition of revenues when earned and the recognition of expenses when incurred.

**Materials and Supplies Valuation**

Materials and supplies are valued at the lower of cost (first-in, first-out) or market value.

# **JACKSON ENERGY AUTHORITY – ELECTRIC DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Utility Plant and Depreciation**

All acquisitions of property and equipment and all expenditures for repairs, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost.

Depreciation is calculated by the straight-line method at rates adequate to allocate the cost of applicable assets over their expected useful lives, and includes the amortization of assets accounted for as capital leases.

#### **Income Taxes**

Jackson Energy Authority was created by state law as a governmental authority and is therefore exempt from federal and state income taxes.

#### **Bond Discounts and Issue Costs**

The Division has capitalized bond discounts and issues cost and is amortizing them over the lives of the bond issues.

#### **Investments**

The Public Act creating the Authority authorizes the following investments:

- (1) Direct obligations of the United States government or any of its agencies;
- (2) Obligations guaranteed as a principal and interest by the United States government or any of its agencies;
- (3) Certificates of deposit and other evidences of deposit at state and federal chartered banks, savings and loan institutions or savings banks deposited and collateralized;
- (4) Repurchase agreements entered into with the United States or its agencies or with any bank, broker-dealer or other such entity so long as the obligation of the obligated party is secured by a perfected pledge of full faith and credit obligations of the United States or its agencies;
- (5) Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified time period with entities rated in one (1) of the two (2) highest rating categories of a nationally recognized rating agency;
- (6) The local government investment pool;
- (7) Direct general obligations of the state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers and rated in either of the two (2) highest rating categories by a nationally recognized rating agency of such obligations; or
- (8) Obligations of any state of the United States or a political subdivision or instrumentality thereof, secured solely by revenues received by, or on behalf of, the state or political subdivision or instrumentality thereof irrevocably pledged to the payment of the principal and interest of such obligations, rated in the two (2) highest rating categories by a nationally recognized rating agency of such obligations.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash Equivalents and Cash Investments**

The Division considers all highly liquid investments (including restricted assets) with a maturity of three months or less from the date acquired to be a cash equivalent. Cash investments are highly liquid investments but with a maturity of more than three months from the date acquired.

**Compensated Absences**

The Division grants annual leave and sick leave based on longevity of service. Employees may accumulate up to 310 hours of annual leave, which is fully vested. Employees are not vested in sick leave until retirement at which time 30 percent of accumulated sick leave is paid to the employee. Starting January 1, 1999, the remaining 70 percent of the employee's accumulated sick leave is credited to the employee's number of years of service. The amount of such additional credit shall be determined by dividing such sick leave hours by 2,080 hours. In no event may such additional credit exceed one additional year of service, with each such day deemed to equal eight (8) hours. A liability of \$851,823 and \$830,838 has been accrued for the years ended June 30, 2002 and 2001, respectively, for future compensated absences earned to date.

**Reclassifications**

Certain reclassifications have been made to the financial statements as of June 30, 2001, to conform with the June 30, 2002, presentation. Such reclassifications have had no effect on the net income for the year ended June 30, 2001, as previously reported.

**Interest Cost**

The Division recognizes interest cost when the liability is incurred. Interest cost associated with the construction of fixed assets is capitalized when material. Other interest costs are expensed.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - INSURANCE COVERAGE**

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except for catastrophic coverage for fleet vehicles left on the premises overnight, the Division retains the risk of loss to the extent of property damage to such vehicles. The Division carries commercial insurance on all vehicles to mitigate the risk of loss associated with uninsured motorists and liability claims. The Division also carries commercial insurance on company owned vehicles driven by senior administration to mitigate the risk of loss associated with property damage as well as liability claims and uninsured motorists. There were no significant outstanding claims liabilities related to vehicle property damage at June 30, 2002 and 2001. The Division carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION****NOTES TO FINANCIAL STATEMENTS****(Continued)****June 30, 2002 and 2001****NOTE 2 - INSURANCE COVERAGE (Continued)**

Insurance Coverage consists of the following as of June 30, 2002:

<u>Insurer</u>	<u>Coverage</u>	<u>Expiration Date</u>	<u>Amount of Policy</u>
Affiliated FM Insurance Company	Fire and extended coverage- 90 percent co-insurance Property Contents Substations Contractor's equipment Communication equipment Flood and earthquake Boiler and machinery Garaged vehicles Transit Accounts receivable Valuable papers Expediting expense Land and water cleanup Cost of construction Newly acquired property Extra expense	07-01-02	\$ 3,589,103 1,890,167 26,782,000 1,050,108 396,359 5,000,000 10,000,000 2,349,775 100,000 250,000 250,000 100,000 100,000 1,000,000 1,000,000 500,000
Great Northern Insurance Company	General automobile liability, personal injury, auto medical payments and uninsured motorists	07-01-02	1,000,000
Distributors Insurance Company	Commercial general liability (for claims over \$100,000) individual aggregate	07-01-02	100,000 300,000
Lexington Insurance Company	Excess general liability (for claims over \$100,000 and \$300,000) individual aggregate	07-01-02	900,000 2,700,000
Westchester Fire	Umbrella general liability	07-01-02	5,000,000

# **JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

### **NOTE 2 - INSURANCE COVERAGE (Continued)**

<u>Insurer</u>	<u>Coverage</u>	<u>Expiration Date</u>	<u>Amount of Policy</u>
Distributors Insurance Company	Worker's Compensation	07-01-02	1,000,000
Zurich American Insurance Company	Pension and benefit fiduciary responsibility	07-01-02	3,000,000
Zurich American Insurance Company	Public officials' & employees' liability	07-01-02	5,000,000
Travelers Insurance Company	Public employee dishonesty	07-01-02	500,000

A Voluntary Employee Benefit Association trust provides medical care and dental insurance coverage for the Division's employees. Based on past experience, the Division pays non-refundable premiums to the trust to be used to pay medical care and dental benefit claims for employees. Claims in excess of \$100,000 are covered by reinsurance. Principal Financial Group is acting as administrator.

### **NOTE 3 - RETIREMENT PLAN**

The Jackson Energy Authority has a retirement plan covering substantially all of its employees. The retirement plan is a single-employer defined benefit pension plan and is administered by the Jackson Energy Authority Retirement Committee. Aetna Life Insurance Company is the disbursing agent for benefits.

Each employee will enter the plan on the first of the month following the anniversary of his/her hire date and attainment of age twenty-one.

The Plan provides for normal retirement at age 65, early retirement after attainment of age 55 and completion of 5 years of vesting service, delayed retirement beyond normal retirement age and disability retirement upon total and permanent disability after completion of 5 years of vesting service. Upon the death of the participant, survivor benefits are provided depending on the retirement benefit chosen. Article 8 of the Plan document assigns the authority to establish and amend benefit provisions to the Jackson Energy Authority Board of Directors. The Plan issues a stand-alone financial report which can be obtained from Aetna by calling 1-800-273-6197 and First Tennessee Bank at 1-901-681-2536.

The contribution requirements of plan members and Jackson Energy Authority are established and may be amended by the Jackson Energy Authority Board of Directors as granted by the plan document. Jackson Energy Authority contributes 8.28 percent of annual employee earnings on behalf of plan members. These employer contributions are treated as if they were made by the participant. Jackson Energy Authority is required to contribute an actuarially determined rate. The required actuarially determined contribution rates were 17.65 percent of the projected payroll payable at the end of each month for the period January 1, 2002 to December 31, 2002 and 16.49 percent of the projected payroll payable at the end of each month for the period January 1, 2001 to December 31, 2001.



# **JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001**

### **NOTE 3 - RETIREMENT PLAN (Continued)**

For the years' ended June 30, 2002 and 2001, Jackson Energy Authority's annual pension cost of \$2,050,871 and \$1,674,417, respectively, was equal to the Division's required and actual contributions. The required contributions were determined as part of the January 1, 2002 and 2001 actuarial valuations "attained age aggregate cost" funding method. The actuarial assumptions included (a) a 7.5 percent investment rate of return, (b) a projected salary increase of 4.5 percent per year, compounded annually, (c) a 3 percent per annum cost-of-living adjustment and (d) a rate of retirement to extend from ages fifty five to sixty five. The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

#### **Three-Year Trend Information for Jackson Energy Authority**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2000	\$ 1,703,035	100%	\$ -
June 30, 2001	\$ 1,674,417	100%	\$ -
June 30, 2002	\$ 2,050,871	100%	\$ -

The total retirement costs for the Electric Division for the years ended June 30, 2002 and 2001 were \$634,788 and \$528,178, respectively.

Contributions were made in accordance with actuarially determined requirements.

### **NOTE 4 - BONDS PAYABLE**

The following is a summary of bond transactions for the years ended June 30, 2002 and 2001:

	<u>Years Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Bonds payable - beginning of year	\$ 17,285,000	\$ 12,595,000
Add: 2000 Revenue Bonds	-	5,600,000
Less: Bond principal paid		
1997 Revenue Refunding & Improvement Bonds	<u>955,000</u>	<u>910,000</u>
Bonds payable - end of year	<u>\$ 16,330,000</u>	<u>\$ 17,285,000</u>

# **JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

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### **NOTE 4 – BONDS PAYABLE (Continued)**

Bonds payable at June 30, 2002, consist of \$5,600,000 Revenue Bonds Series 2000, payable in annual installments of \$130,000 to \$355,000 from November 15, 2002 to November 15, 2025, with variable rates of interest payable monthly, and \$10,730,000 Revenue Refunding and Improvement Bonds, Series 1997, payable in annual installments ranging from \$455,000 to \$1,080,000 from August 1, 2002, to August 1, 2018, with interest ranging from 4.30% to 5.25% per annum payable semi-annually.

The proceeds of the Series 2000 bonds were used by the Division to finance the expansion of and improvements to the electric power distribution division and electric plant (the "Electric Division") pursuant to a Resolution adopted by the Division on November 7, 2000. The redemption schedule for these bonds is included in the bond redemption schedule in this note. During any short-term interest period, the bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the Division's remarketing agent, SunTrust Equitable Securities Corporation. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. Under an irrevocable letter of credit issued by SunTrust Bank, the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price and 50 days' accrued interest (at a maximum rate of 13% per annum) on such Bonds or that portion of the purchase price corresponding to the interest accrued thereon of bonds delivered to it. The letter of credit is valid through November 15, 2010 and carries a variable interest rate which would be a rate determined by the remarketing agent to be the minimum interest rate required to sell the bonds at a price of par with a maximum interest rate of 13% per annum. If the remarketing agent is unable to resell any "put" bonds before the end of the short-term interest period, which could be up to six months from the "put" date, the irrevocable letter of credit will serve as a take out agreement under which the remarketing agent will become the bond holder and will receive principal and interest payments according to the redemption schedule.

The Series 2000 Electric Revenue Bonds will be payable solely from, and are secured by a pledge of the Net Revenues of the Electric Division on an equality and parity of lien with respect to other obligations of the Electric Division. These bonds will also be payable from an irrevocable direct-pay Letter of Credit (the "Electric Division Credit Facility") issued by SunTrust Bank as the Credit Provider.

There are a number of requirements, limitations and restrictions contained in the bond resolutions. Among these are requirements for deposits to debt service. The Division is in compliance with these deposit requirements and with all significant limitations and restrictions.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

**NOTE 4 - BONDS PAYABLE (Continued)**

The annual requirements to amortize the Bonds outstanding as of June 30, 2002, including interest, are as follows:

Years Ended June 30,	Series 1997 Bonds		Series 2000 Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	
2003	\$ 990,000	\$ 525,455	\$ 115,000	\$ 73,403	\$ 1,703,858
2004	1,040,000	480,905	120,000	71,657	1,712,562
2005	1,080,000	433,065	125,000	70,030	1,708,095
2006	455,000	382,305	130,000	68,337	1,035,642
2007	475,000	360,693	135,000	66,579	1,037,272
2008	500,000	337,655	145,000	64,715	1,047,370
2009	525,000	313,155	150,000	62,758	1,050,913
2010	555,000	286,905	160,000	60,695	1,062,600
2011	580,000	258,600	165,000	58,539	1,062,139
2012	610,000	228,875	175,000	56,279	1,070,154
2013	645,000	197,613	185,000	53,886	1,081,499
2014	480,000	163,750	195,000	51,361	890,111
2015	505,000	139,750	205,000	48,703	898,453
2016	530,000	114,500	215,000	45,913	905,413
2017	560,000	88,000	230,000	42,952	920,952
2018	585,000	60,000	240,000	39,831	924,831
2019	615,000	30,750	255,000	36,540	937,290
2020	-	-	270,000	33,049	303,049
2021	-	-	285,000	29,361	314,361
2022	-	-	300,000	25,474	325,474
2023	-	-	320,000	21,349	341,349
2024	-	-	340,000	16,960	356,960
2025	-	-	360,000	12,307	372,307
2026	-	-	380,000	7,388	387,388
2027	-	-	400,000	2,205	402,205
	<u>\$ 10,730,000</u>	<u>\$ 4,401,976</u>	<u>\$ 5,600,000</u>	<u>\$ 1,120,271</u>	<u>\$ 21,852,247</u>

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)  
**June 30, 2002 and 2001**

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**NOTE 5 - ELECTRIC RATES IN FORCE AS OF June 30, 2002**

**RESIDENTIAL RATE - SCHEDULE RS**

Base charge - \$5.50 per month

Energy charge - \$.05969 per kWh

**GENERAL POWER RATE - SCHEDULE GSA**

**Part 1.**

Base charge - \$10.50 per delivery point per month

Energy charge - \$.06627 per kWh per month

**Part 2.**

Base charge - \$35.00 per delivery point per month

Demand charge - First 50 KW of billing demand per month, no charge  
Additional KW of billing demand per month, at \$9.35 per KW

Energy charge - First 15,000 kWh per month at \$.06661 per kWh  
Additional kWh per month at \$.03413 per kWh

**Part 3.**

Base charge - \$200.00 per delivery point per month

Demand charge - First 1,000 KW of billing demand per month, at \$9.05 per KW  
Additional kWh of billing demand per month, at \$10.15 per KW

Energy charge - \$.03486 per kWh

**GENERAL POWER RATE - SCHEDULE GSB**

Base charge - \$1,500.00 per delivery point per month

Demand charge - \$10.24 per KW of billing demand per month

Energy charge - \$.02825 per kWh for up to 620 hours use of metered demand per month  
\$.02306 per kWh for all additional kWh per month

Facilities charge - \$.48 below 161 KV to 46 KV  
-\$1.23 below 46 KV to first 10,000 KW  
-\$ .97 for all additional KW per month

**GENERAL POWER RATE - SCHEDULE GSC**

Base charge - \$1,500.00 per delivery point per month

Demand charge - \$10.24 per KW of billing demand per month

Energy charge - \$.02825 per kWh for up to 620 hours use of metered demand per month  
\$.02306 per kWh for all additional kWh per month

Facilities charge - \$.48 below 161 KV to 46 KV  
\$1.23 below 46 KV to first 10,000 KW  
\$.97 for all additional KW per month

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

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**NOTE 5 - ELECTRIC RATES IN FORCE AS OF June 30, 2002 (Continued)**

**GENERAL POWER RATE - SCHEDULE GSD**

Base charge - \$1,500.00 per delivery point per month  
Demand charge - \$12.60 per KW of billing demand per month  
Energy charge - \$.02265 per kWh per month  
Facilities charge - \$.36 below 161 KV to 46 KV  
                              -.93 below 46 KV to first 10,000 KW  
                              -.73 for all additional KW per month

**OUTDOOR LIGHTING RATE - SCHEDULE LS**

Base charge - Athletic field and traffic signal divisions \$3.75 per month  
Energy charge - \$.04482 per kWh  
Facilities charge - shall be 12% of installed plant  
Security lighting  
    175 W MV - 70 kWh - \$5.77  
    400 W MV - 155 kWh - \$11.01  
    1,000 W MV - 378kWh - \$22.80  
    MV not available for new installations  
    100 W HPS - 42kWh - \$5.37  
    250 W HPS - 105kWh - \$9.60  
    400 W HPS - 165kWh - \$14.34  
Additional monthly pole charge  
    30 foot \$2.25  
    40 foot \$3.75

The Electric division served 32,047 and 31,458 customers as of June 30, 2002 and 2001, respectively. There are no unmetered customers.

# JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 6 - NOTES PAYABLE

Notes payable are summarized as follows:

	June 30, 2002		June 30, 2001	
	Due Within One Year	Due After One Year	Due Within One Year	Due After One Year
AmSouth advances (a)	\$ 60,600	\$ 146,985	\$ 129,105	\$ 204,929
Southwest Electric (b)	316,307	1,394,830	310,940	1,662,834
Capital Leases (c)	<u>32,764</u>	<u>30,639</u>	<u>36,208</u>	<u>51,849</u>
	<u>\$ 409,671</u>	<u>\$ 1,572,454</u>	<u>\$ 476,253</u>	<u>\$ 1,919,612</u>

- (a) The AmSouth advances correspond with long-term notes receivable. The current maturities are based upon payment histories of the most recent prior years. It is not practicable to estimate the long-term portion of the AmSouth advances beyond one year.
- (b) Future maturities due Southwest Electric are non-interest bearing notes related to annexation of customers and is payable in annual installments of various amounts.

Future maturities of note payable - Southwest Electric are as follows:

Year Ended June 30,	
2003	\$ 316,307
2004	316,307
2005	316,307
2006	316,307
2007	202,418
2008-2011	<u>243,491</u>
	<u>\$ 1,711,137</u>

- (c) The Division leases various office equipment with lease terms through June 2005. Obligations under capital leases have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at various interest per annum.

Obligations under capital leases consist of the following at June 30,

	2002	2001
Total	\$ 63,403	\$ 88,057
Less: Current portion	<u>32,764</u>	<u>36,208</u>
Long term portion	<u>\$ 30,639</u>	<u>\$ 51,849</u>

# **JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001**

### **NOTE 6 - NOTES PAYABLE (Continued)**

The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments are as follows:

<u>Year Ended June 30,</u>	
2003	\$ 34,605
2004	30,112
2005	1,274
2006	-
2007	-
Thereafter	-
Total future minimum lease payments	65,991
Less: Amount representing interest	<u>2,588</u>
Present value of future minimum lease payments	<u>\$ 63,403</u>

### **NOTE 7 - ELECTRIC PLANT IN SERVICE AND EQUIPMENT ADDITIONS AND RETIREMENTS**

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Reclassifi-</u> <u>cations and</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2002</u>
Land and land rights	\$ 936,821	\$ -	\$ -	\$ 936,821
Structures and improvements	4,741,049	954,150	(36,591)	5,658,608
Poles, towers, service and meters	62,090,640	4,072,409	(676,213)	65,486,836
Station equipment	15,800,331	1,719,662	(36,247)	17,483,746
Transportation equipment	2,437,196	320,020	(261,047)	2,496,169
Communication equipment	990,965	250,157	-	1,241,122
Office furniture and equipment	2,539,147	192,802	(15,633)	2,716,316
Tools and miscellaneous equipment	688,161	52,950	-	741,111
Electric plant acquisition adjustment	<u>2,426,530</u>	<u>53,670</u>	<u>(353,506)</u>	<u>2,126,694</u>
Total	<u>\$ 92,650,840</u>	<u>\$ 7,615,820</u>	<u>\$ (1,379,237)</u>	<u>\$ 98,887,423</u>

# JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 7 - ELECTRIC PLANT IN SERVICE AND EQUIPMENT ADDITIONS AND RETIREMENTS (Continued)

	Balance July 1, 2000	Additions	Reclassifi- cations and Retirements	Balance June 30, 2001
Land and land rights	\$ 887,153	\$ 49,668	\$ -	\$ 936,821
Structures and improvements	4,452,814	314,026	(25,791)	4,741,049
Poles, towers, service and meters	58,819,975	4,730,160	(1,459,495)	62,090,640
Station equipment	14,954,553	845,778	-	15,800,331
Transportation equipment	2,339,976	188,940	(91,720)	2,437,196
Communication equipment	925,029	65,937	-	990,965
Office furniture and equipment	1,895,197	698,775	(54,825)	2,539,147
Tools and miscellaneous equipment	665,352	22,808	-	688,161
Electric plant acquisition adjustment	<u>2,777,800</u>	<u>-</u>	<u>(351,270)</u>	<u>2,426,530</u>
Total	<u>\$ 87,717,849</u>	<u>\$ 6,916,092</u>	<u>\$ (1,983,101)</u>	<u>\$ 92,650,840</u>

### NOTE 8 - UNCERTAINTIES

The Authority is a defendant in several suits, which are being defended by the Authority's public liability insurer. There is a \$100,000 deductible amount on this insurance. Therefore, any damages awarded under these suits would be the Authority's responsibility up to \$100,000. Amounts in excess of \$100,000 would be covered by insurance. Also, workers' compensation suits are being defended by the compensation carrier for the Authority.

Jackson Energy Authority is authorized by state law to acquire, construct, improve, furnish, equip, finance, own, operate and maintain within and outside the corporate limits of the City of Jackson, Tennessee, a system for the furnishing of telecommunications services to its customers. As of June 30, 2002, the Electric Division has incurred approximately \$380,000 in costs in connection with the eventual development of a telecommunications system and the costs are currently presented in the accompanying financial statements as construction work in process. The Authority plans to transfer the development of the Electric Division to the telecommunications division when such system begins operating. The development costs will be expensed within the Electric Division if the telecommunications division does not begin operating as currently planned.

In order to begin operations, the Authority plans to issue approximately \$60,000,000 in revenue bonds within the telecommunications system to construct and equip the facility to provide telecommunications services. As allowed by current state law, on May 7, 2002, the city council enacted a resolution under which the City of Jackson may guarantee such bonds. In August 2002, a lawsuit was filed seeking to block the City's guarantee of such bonds and the Authority's entry into the telecommunications and Internet provider industries. The Authority is vigorously contesting the lawsuit and expects a favorable outcome. However, the case is still in the discovery stages and the ultimate outcome cannot be reasonably determined.



# JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 9 - CASH AND CASH EQUIVALENTS AND CASH INVESTMENTS

At June 30, 2002, cash and cash equivalents and cash investments under the classifications of current and restricted assets consisted of the following:

Description	Amount	Interest Rate	Date Acquired	Maturity Date	Market Value
<b>Current assets</b>					
Cash and cash equivalents					
Petty cash	\$ 3,650	n/a	n/a	n/a	\$ 3,650
Payroll account	9,999	n/a	n/a	n/a	9,999
General cash - UPB	87,396	n/a	n/a	n/a	87,396
General cash - ASB	11,360	n/a	n/a	n/a	11,360
General cash - BancorpSouth	191,778	2.55%	n/a	n/a	191,778
General cash - FTB	30,538	n/a	n/a	n/a	30,538
General cash - FB	4,579	1.87%	n/a	n/a	4,579
General cash - FSB	8,762	0.50%	n/a	n/a	8,762
General cash - BMC	7,594	n/a	n/a	n/a	7,594
General cash - BJ	6,162	2.00%	n/a	n/a	6,162
General cash - Bancorp	1,279,722	1.82%	n/a	n/a	1,279,722
General cash - BOM	4,279	n/a	n/a	n/a	4,279
General cash - MB	5,521	n/a	n/a	n/a	5,521
General cash - RFCU	1,838	n/a	n/a	n/a	1,838
Operating fund-FB	<u>8,855,706</u>	*	n/a	n/a	8,855,706
Total current assets	<u>\$10,508,884</u>				
<b>Restricted assets</b>					
Cash and cash equivalents					
Cash - UPB	\$ 100				100
Certificate of deposit	1,252,728	2.53%	06-28-02	07-26-02	1,252,728
Certificate of deposit - UPB	17,500				17,500
Construction fund	382,256	1.16%	n/a	n/a	382,256
Savings-FTB	<u>5,287</u>	variable	n/a	n/a	5,287
Total restricted assets	<u>\$ 1,657,871</u>				

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

**NOTE 9 - CASH AND CASH EQUIVALENTS AND CASH INVESTMENTS (Continued)**

At June 2001, cash and cash equivalents and cash investments under the classifications of current and restricted assets consisted of the following:

<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Date Acquired</u>	<u>Maturity Date</u>	<u>Market Value</u>
<b>Current assets</b>					
Cash and cash equivalents					
Petty cash	\$ 3,650	n/a	n/a	n/a	\$ 3,650
Payroll account	6,081	n/a	n/a	n/a	6,081
General cash - UPB	578,728	n/a	n/a	n/a	578,728
General cash - ASB	49,860	n/a	n/a	n/a	49,860
General cash - BancorpSouth	230,218	2.55%	n/a	n/a	230,218
General cash - FTB	48,889	n/a	n/a	n/a	48,889
General cash - FB	52,585	3.05%	n/a	n/a	52,585
General cash - FSB	36,609	1.00%	n/a	n/a	36,609
General cash - BMC	9,914	n/a	n/a	n/a	9,914
General cash - BJ	7,784	2.00%	n/a	n/a	7,784
Operating fund - FB	<u>11,928,068</u>	*	n/a	n/a	11,928,068
Total current assets	<u>\$12,952,386</u>				
<b>Restricted assets</b>					
Cash and cash equivalents					
Certificate of deposit	\$ 17,500	3.42%	04/10/01	7/10/01	\$ 17,500
Certificate of deposit	1,238,618	3.67%	06/29/01	7/27/01	1,238,618
Certificate of deposit	2,500,000	3.70%	06/29/01	7/27/01	2,500,000
Construction fund	209,197	3.41%	n/a	n/a	209,197
Savings-FTB	<u>185,341</u>	variable	n/a	n/a	185,341
Total restricted assets	<u>\$ 4,150,656</u>				

Deposits in excess of amounts insured by the Federal Deposit Insurance Corporation are insured by securities held in the Tennessee Collateral Pool. These deposits are category 1 insured or collateralized with securities held by the entity or by its agent in the entity's name.

\* This is the Authority's general revenue checking account in 2002 and 2001. Each division reports its share of the account. Interest is earned on the daily revenue fund balance. The interest rate is 103.2 percent of the Federal Funds Target Rate of the FOMC. This rate applies for one week and is used to calculate the interest on a daily basis. Interest is added to the account monthly. A service fee, based on actual cost, not to exceed \$1,200, is paid each month by the Division for this banking service.

# **JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001**

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### **NOTE 10 - DEFERRED COMPENSATION PLAN**

The Division offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Division employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

IRC Section 457 was changed August 20, 1996, to require that all assets and liabilities be held in trust for the exclusive benefit of participants and their beneficiaries. The Division's plan was amended to adopt the required changes. The changes were effective January 1, 1997.

### **NOTE 11 - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

In addition to providing pension benefits, the Division provides certain health care, dental and life insurance benefits for retired employees. Substantially all of the Division's employees may become eligible for those benefits if they reach age fifty-five while working for the Division. The health care and dental benefits are provided by a self-insurance trust plan with an insurance company acting as administrator. The Plan provides for reinsurance for claims in excess of \$100,000.

Retired employees over the age of sixty-five are covered by a "Medicare carve-out" plan which provides the same benefits except Medicare is the primary payer. Not all of the retired employees are eligible for dental benefits.

The cost of the health care benefits are \$692,439 and \$617,399 for the years ended June 30, 2002 and 2001, respectively. The cost of providing the health care and dental benefits for thirty-one and twenty-one retirees for the years ended June 30, 2002 and 2001, respectively, is not separable from the cost of providing the health care and dental benefits for one hundred and ninety-six active employees for the years ended June 30, 2002 and 2001, respectively. The cost of the life insurance benefits are \$26,923 and \$44,275, for the years ended June 30, 2002 and 2001, respectively. The cost of providing the life insurance benefits for thirty-one and thirty-one retirees for the years ended June 30, 2002 and 2001, respectively, is not separable from the cost of providing life insurance benefits for one hundred and ninety-six active employees for the years ended June 30, 2002 and 2001, respectively.

### **NOTE 12 - GEOGRAPHIC OPERATIONS**

The Division's operations are within the City of Jackson and Madison County, Tennessee, and it derives its revenue primarily from user charges to customers within the City of Jackson and Madison County, Tennessee.

### **NOTE 13 - MAJOR SUPPLIERS**

The Division purchases all of its electric capacity from the Tennessee Valley Authority (TVA). Purchased power from TVA cost \$74,901,570 and \$76,666,666 for years ending June 30, 2002 and 2001, respectively.

# **JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001**

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### **NOTE 14 - ACCOUNTING CHANGE**

As of July 1, 2000, the Authority adopted Statement No. 34 of the Government Accounting Standards Board (ELECTRICB), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Statement No. 34 requires recording of certain capital assets and in accordance with the Statement, the Electric Division has increased net assets as of July 1, 2000 by \$1,484,019 to record donated capital assets. The change also increased the increase in net assets by \$824,405 for the period ended June 30, 2001.

### **NOTE 15 - INTERDEPARTMENTAL RENT INCOME**

For 2002, the Division charged rent for the mainframe computer, large copier and miscellaneous equipment to the Electric, Water, and Wastewater Divisions of \$4,246, \$4,722, and \$4,404, respectively.

### **NOTE 16 - RELATED PARTY TRANSACTIONS**

Included in the accompanying financial statements in investments is an equity interest in The Tennergy Corporation. The Tennergy Corporation is an energy acquisition company as provided by the laws of the State of Tennessee whose purpose is the purchase and resale of energy, including natural Electric, propane and electricity, to local utilities. The initial investment in The Tennergy Corporation during the year ended June 30, 1999 amounted to \$8,025. The investment losses recorded by the Division for the years ended June 30, 2002 and 2001 amounted to \$82,732 and \$30,659 respectively; and the investment in The Tennergy Corporation as of June 30, 2002 and 2001 was \$(103,274) and \$(24,104) respectively. The Electric Division's investment in the Tennergy Corporation represented a (0.4) percent and a (0.4) percent interest as of June 30, 2002 and 2001, respectively.

On June 30, 2002 and 2001, The Tennergy Corporation had total assets of \$223,731,642 and \$258,495,445, and total liabilities of \$214,888,109 and \$251,968,644, respectively. These assets and liabilities reflect investment interests that include, but are not limited to, both the Electric and Electric Divisions of Jackson Energy Authority. Separate financial statements of The Tennergy Corporation can be obtained from the Corporation in Jackson, Tennessee.

Included in the accompanying financial statements in investments is an interest in Utilicor, LLC, a Limited Liability Company. Utilicor, LLC is a regional electric utility materials supply company whose purpose is the purchase and resale of electric utility materials supply to regional electric utilities. The initial investment in Utilicor, LLC during the year ended June 30, 2002 amounted to \$467,400. Separate financial statements of Utilicor, LLC can be obtained from the LLC in Jackson, Tennessee.



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Elizabeth A. Acree, CPA  
Dale Cavaness, CPA  
C. Mickey Hannon, CPA  
John E. Hudson, CPA  
Tony R. Jones, CPA

S. Lawson Crain, CPA  
R. Thomas Crenshaw, CPA  
Mark M. Layne, CPA  
Katherine G. Watts, CPA  
Anita C. Hamilton, CPA

Amy K. Santaniello, CPA  
Jason T. Shanes, CPA  
Tamara H. Stanfill, CPA  
Karen L. Taylor, CPA  
Trenton D. Watrous, CPA, CVA  
Roger D. Worrell, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Jackson Energy Authority  
Jackson, Tennessee

We have audited the financial statements of the Jackson Energy Authority - Electric Division and Jackson Utility Division - Electric System as of and for the years ended June 30, 2002 and 2001, respectfully, and have issued our report thereon dated September 6, 2002. We conducted our audits in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Jackson Energy Authority - Electric Division's and Jackson Utility Division - Electric System's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Jackson Energy Authority - Electric Division's and Jackson Utility Division - Electric System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

26 SECURITY DRIVE • JACKSON, TENNESSEE 38305

PHONE: 731.668.7070 • FAX: 731.668.1218 • TOLL FREE: 877.892.7070 • www.craincpa.com • E-MAIL: [craininfo@craincpa.com](mailto:craininfo@craincpa.com)

Independent Auditors' Report on Compliance  
and on Internal Control over Financial Reporting  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government  
Auditing Standards*  
(Continued)

This report is intended for the information of the Board of Directors, management, and government regulatory and granting agencies and not intended to be and should not be used by anyone other than these specified parties.

*Crain & Company*  
CRAIN & COMPANY  
Certified Public Accountants

Jackson, Tennessee  
September 6, 2002

## SUPPLEMENTARY INFORMATION

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION****HISTORICAL PENSION INFORMATION****June 30, 2002**

	January 1,			
	1993	1994	1995	1996
(1) Pension benefit obligation	\$ 32,450,851	\$ 35,287,736	\$ 38,518,851	\$ 42,199,778
(2) Net assets available for benefits	\$ 20,108,384	\$ 21,992,047	\$ 23,796,754	\$ 26,644,006
(3) Percent - (2) divided by (1)	61.97%	62.32%	61.77%	63.14%
(4) Unfunded pension benefit obligation (1) minus (2)	\$ 12,342,467	\$ 13,295,689	\$ 14,722,097	\$ 15,555,772
(5) Annual covered payroll	\$ 7,596,998	\$ 7,878,863	\$ 7,977,673	\$ 8,753,084
(6) Percent - (4) divided by (5)	162.47%	168.75%	184.54%	177.74%

An actuarial valuation is performed annually. The information presented above is taken from those reports and is supplementary information required by the Governmental Accounting Standards Board.



January 1,					
1997	1998	1999	2000	2001	2002
\$ 44,897,959	\$ 48,868,864	\$ 54,727,249	\$ 58,727,249	\$ 64,995,256	\$ 71,340,653
\$ 29,467,137	\$ 33,343,880	\$ 38,092,794	\$ 42,543,267	\$ 45,348,868	\$ 47,914,966
65.63%	68.23%	69.60%	72.44%	69.77%	67.16%
\$ 15,430,822	\$ 15,524,984	\$ 16,634,455	\$ 16,183,982	\$ 19,646,388	\$ 23,425,687
\$ 9,061,874	\$ 9,949,845	\$ 10,744,593	\$ 11,117,696	\$ 11,302,548	\$ 12,876,865
170.28%	156.03%	154.82%	145.57%	173.82%	181.92%

- a. The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions actuarial finding method, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.
- b. Looking at the pension benefit obligation, or the unfunded portion of the pension benefit obligation, in isolation can be misleading.
  - (i) Expressing net assets available for benefits as a percentage of the pension benefit obligation (line 3) provides one indication of the extent to which a plan is funded. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.
  - (ii) Expressing the unfunded pension benefit obligation as a percentage of the annual covered payroll (line 6) approximately adjusts for the effects of inflation and aids analysis of funding progress. Generally, the smaller the unfunded percentage, the stronger the plan.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**OPERATING EXPENSES**

	Years Ended June 30,	
	2002	2001
Operating expenses		
Transmission		
Station expense	\$ 2,700	\$ 1,451
Load dispatching	81,776	77,447
Overhead line expense	7,468	4,724
Miscellaneous	-	-
Total transmission	<u>91,944</u>	<u>83,622</u>
Distribution		
Supervision and engineering	37,499	32,671
Load dispatching	90,775	83,210
Station expense	65,989	66,943
Overhead line expense	145,397	188,869
Underground line expense	15,729	10,527
Underground line pipe location	26,856	32,264
Street lights and signals	84,038	85,254
Meters	186,458	83,555
Customer installation	280,469	369,871
Miscellaneous	378,271	434,241
Rent	72,662	90,538
Total distribution	<u>1,384,143</u>	<u>1,477,943</u>
Customer accounts		
Supervision	21,106	25,250
Meter reading	159,355	177,500
Customer contracts and orders	159,791	132,921
Customer collections	291,469	258,824
Customer billing and accounting	119,254	88,175
Data processing	202,512	167,709
Uncollectible accounts	450,000	500,004
Total customer accounts	<u>1,403,487</u>	<u>1,350,383</u>
Customer information and sales expense		
Assistance	263,761	221,960
Demonstrations and advertising	17,984	19,677
Miscellaneous	27,663	32,878
Total customer information and sales expense	<u>309,408</u>	<u>274,515</u>
Administrative and general		
Administrative salaries	268,558	281,388
Office salaries	330,027	276,166
Employee training	7,848	17,901
Office supplies and expense	245,648	200,316
Professional services	89,537	99,740
Insurance	247,538	226,133
Employees' pension and benefits	1,024,550	891,987
Miscellaneous and penalties	111,436	76,324
Total administrative and general	<u>2,325,142</u>	<u>2,069,955</u>
Total operating expenses	<u>\$ 5,514,124</u>	<u>\$ 5,256,418</u>

See independent auditors' report.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**MAINTENANCE EXPENSES**

	Years Ended June 30 ,	
	2002	2001
Maintenance expenses		
Station equipment	\$ 6,030	\$ 79,151
Overhead lines	106,058	195,886
Underground lines	<u>1,126</u>	<u>-</u>
Total transmission	<u>113,214</u>	<u>275,037</u>
Distribution		
Supervision and engineering	35,401	34,879
Station equipment	142,300	84,674
Poles	22,141	44,592
Lines	673,321	612,392
Transformers	204,330	229,387
Street lighting and signals	194,485	192,354
Meters	<u>30,695</u>	<u>30,002</u>
Total distribution	<u>1,302,673</u>	<u>1,228,280</u>
Administrative and general		
Structures and improvements	55,212	34,249
Office furniture and fixtures	13,488	17,060
Communications equipment	<u>25,472</u>	<u>32,104</u>
Total administrative and general	<u>94,172</u>	<u>83,413</u>
Total maintenance expenses	<u>\$ 1,510,059</u>	<u>\$ 1,586,730</u>

See independent auditors' report.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION****HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE****(Unaudited)****Years Ended June 30,**

	<b>HISTORICAL</b>				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Operating revenues	\$ 78,603,818	\$ 85,737,384	\$ 89,765,792	\$ 92,461,773	\$ 92,281,162
Operating expenses	71,337,094	76,596,865	80,113,860	83,509,813	81,925,753
Payroll taxes	<u>256,000</u>	<u>239,513</u>	<u>244,157</u>	<u>267,124</u>	<u>293,674</u>
Total income before depreciation, interest and in lieu of taxes	<u>7,010,724</u>	<u>8,901,006</u>	<u>9,407,775</u>	<u>8,684,836</u>	<u>10,061,735</u>
Other income	<u>341,299</u>	<u>336,267</u>	<u>570,630</u>	<u>601,272</u>	<u>239,030</u>
Income available for bond debt service	<u>\$ 7,352,023</u>	<u>\$ 9,237,273</u>	<u>\$ 9,978,405</u>	<u>\$ 9,286,108</u>	<u>\$ 10,300,765</u>
Bond debt service	\$ 1,527,078	\$ 1,497,804	\$ 1,489,315	\$ 1,611,113	\$ 1,598,110
Bond debt service coverage	4.82	6.17	6.71	5.76	6.45

**PROJECTED**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating revenues	\$ 96,379,342	\$ 97,957,364	\$ 99,539,802	\$ 101,179,407	\$ 102,854,366
Operating expenses	84,684,508	86,221,622	87,737,085	89,325,366	90,926,555
Payroll taxes	<u>271,517</u>	<u>281,387</u>	<u>291,619</u>	<u>302,145</u>	<u>312,954</u>
Total income before depreciation, interest and in lieu of taxes	<u>11,423,317</u>	<u>11,454,355</u>	<u>11,511,098</u>	<u>11,551,896</u>	<u>11,614,857</u>
Other income	<u>383,999</u>	<u>453,450</u>	<u>471,123</u>	<u>482,898</u>	<u>511,592</u>
Income available for bond debt service	<u>\$ 11,807,316</u>	<u>\$ 11,907,805</u>	<u>\$ 11,982,221</u>	<u>\$ 12,034,794</u>	<u>\$ 12,126,449</u>
Bond debt service	\$ 858,203	\$ 1,509,825	\$ 1,509,387	\$ 1,506,232	\$ 1,508,303
Bond debt service coverage	13.76	7.89	7.94	7.99	8.04

Unaudited - See independent auditors' report.

**JACKSON ENERGY AUTHORITY – ELECTRIC DIVISION**  
**REVENUES GENERATED UNDER PRESENT RATES AND TEN LARGEST CUSTOMERS**  
**(Unaudited)**

Operating Revenue from Sales of Electricity  
(thousands)

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	<u>Total</u>
1989	\$ 14,615	\$ 5,694	\$ 30,173	\$ 1,120	\$ 51,602
1990	14,842	5,955	31,675	1,159	53,631
1991	15,591	6,222	32,904	1,181	55,898
1992	15,519	6,100	33,372	1,162	56,153
1993	15,969	5,403	34,903	1,285	57,560
1994	17,757	5,562	37,035	1,346	61,700
1995	17,342	5,211	42,104	1,402	66,059
1996	19,071	5,594	42,852	1,483	69,000
1997	18,243	5,666	42,035	1,566	67,510
1998	20,691	6,480	48,605	1,773	77,549
1999	22,065	6,682	53,901	1,982	84,630
2000	22,136	6,936	57,362	2,146	88,580
2001	23,147	6,748	59,057	2,275	91,227
2002	22,500	7,004	59,135	2,430	91,069

Largest Industrial Customers by Yearly Revenue

<u>Number</u>	<u>Customer</u>	<u>Revenue</u>	<u>KWH</u>	<u>Pk KWD</u>
1	Owens Corning Fiberglass	\$ 7,415,011	130,007,040	18,586
2	Procter & Gamble	6,885,244	134,721,263	24,725
3	Aurora Foods, Inc	2,261,310	54,768,570	9,720
4	Jackson Madison County General Hospital	2,067,104	30,794,400	5,669
5	Ormet Aluminum	2,056,819	42,450,149	8,184
6	Bruce Hardwood Floors	1,997,654	30,654,804	5,437
7	Printpack Incorp	1,481,381	22,238,400	4,296
8	Porter Cable Corp.	1,308,233	25,104,451	5,880
9	Devilbiss 1& 2	1,287,489	17,638,560	3,983
10	TBDN Tennessee Company	1,173,892	17,210,400	3,343

Unaudited - See independent auditors' report.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**SUMMARY OF OPERATIONS**  
(Unaudited)

Years Ended June 30,

	1997	1998	1999	2000	2001	2002
Operating revenue	\$ 68,603,309	\$ 78,603,818	\$ 85,737,398	\$ 89,765,793	\$ 92,461,773	\$ 92,281,162
Purchased power	55,754,622	65,295,486	70,416,918	73,436,098	76,666,666	74,901,570
Operating expenses	4,223,108	4,361,221	4,744,423	5,127,222	5,256,418	5,514,125
Maintenance	1,450,588	1,680,387	1,435,525	1,550,540	1,586,730	1,510,059
Payroll taxes	245,891	255,675	239,513	244,157	267,124	293,674
Operating income	6,929,100	7,011,049	8,901,019	9,407,776	8,684,835	10,061,734
Other income (expenses)	465,921	273,680	268,004	520,446	550,713	401,267
Income before depreciation in lieu of taxes and interest expense	7,395,021	7,284,729	9,169,023	9,928,222	9,235,548	10,463,001
Depreciation, in lieu of taxes and interest expense	4,694,639	5,107,004	5,189,047	5,517,954	5,891,482	5,952,169
Net income	\$ 2,700,382	\$ 2,177,725	\$ 3,979,976	\$ 4,410,268	\$ 3,344,066	\$ 4,510,832

Unaudited - See independent auditors' report.

**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**CUSTOMERS AND REVENUE**  
**(Unaudited)**

Fiscal Year Ended June 30,	Total Customers (1)	Residential		Commercial & Industrial		Lighting		Total Electric System Sales of Electricity
		Customers	Revenue	Customers	Revenue	Customers	Revenue	
1984	23,780	20,428	\$ 11,787,634	3,166	\$ 28,528,274	186	\$ 864,396	\$ 41,180,304
1985	24,401	20,932	11,269,558	3,297	28,975,434	172	902,000	41,146,992
1986	24,913	21,392	11,913,265	3,360	31,380,239	161	956,699	44,250,203
1987	25,481	21,735	14,091,541	3,594	33,712,506	152	950,515	48,754,562
1988	25,689	21,847	14,659,228	3,698	33,633,123	144	1,036,551	49,328,902
1989	25,900	21,991	14,614,903	3,772	35,867,124	137	1,119,969	51,601,996
1990	26,206	22,110	14,842,388	3,963	37,629,290	133	1,159,090	53,630,768
1991	26,366	22,211	15,590,516	4,025	39,126,098	130	1,180,580	55,897,194
1992	26,345	22,058	15,519,303	4,073	39,471,665	214	1,161,850	56,152,818
1993	26,758	22,422	15,969,294	4,112	40,306,333	224	1,285,144	57,560,771
1994	26,837	22,378	17,757,034	4,231	42,596,833	228	1,346,387	61,700,254
1995	27,426	22,758	17,340,650	4,437	47,315,825	231	1,402,188	66,058,663
1996	28,336	23,514	19,071,246	4,597	48,446,113	225	1,482,785	69,000,144
1997	29,550	24,536	18,243,076	4,813	47,701,211	201	1,565,796	67,510,083
1998	30,267	25,053	20,691,250	5,000	55,084,761	214	1,773,353	77,549,364
1999	30,950	25,528	22,064,821	5,217	60,582,933	205	1,982,483	84,630,237
2000	31,160	25,591	22,136,101	5,383	64,298,242	186	2,145,837	88,580,180
2001	31,458	25,749	23,147,372	5,462	65,804,385	247	2,275,381	91,227,138
2002	32,047	26,194	22,500,326	5,618	66,138,608	235	2,429,598	91,068,532
			<u>\$ 323,209,506</u>		<u>\$ 846,598,997</u>		<u>\$ 27,020,602</u>	<u>\$ 1,196,829,105</u>

(1) The numbers for all customers are at June 30.

All figures are as provided by Jackson Energy Authority.

Unaudited - See independent auditors' report.



**JACKSON ENERGY AUTHORITY - ELECTRIC DIVISION**  
**SALES AND DEMAND IN HOURS**  
(Unaudited)  
Years Ended June 30,

**Sales in Megawatts Hours and Maximum Division  
Demand in Kilowatts**

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	<u>Total MWH Sales</u>	<u>Maximum Hourly Demand</u>
1989	272,861	94,471	600,234	12,072	979,638	221,219
1990	270,646	96,354	620,205	12,346	999,551	237,235
1991	284,554	101,144	666,099	13,855	1,065,652	234,056
1992	281,767	97,643	673,571	12,791	1,065,772	234,902
1993	281,376	82,994	733,834	13,158	1,111,362	258,564
1994	307,059	87,116	786,039	13,764	1,193,978	255,412
1995	293,527	79,465	891,174	13,699	1,277,865	279,000
1996	321,800	84,515	908,555	14,564	1,329,434	274,340
1997	306,197	85,559	910,099	15,152	1,317,007	288,226
1998	335,368	94,261	1,024,325	16,872	1,470,826	319,002
1999	352,043	95,498	1,124,970	19,177	1,591,687	319,571
2000	353,547	98,480	1,197,195	20,550	1,669,772	338,460
2001	369,798	96,381	1,201,567	20,755	1,688,501	359,923
2002	351,551	97,851	1,186,408	21,342	1,657,152	338,454

**JACKSON ENERGY AUTHORITY – ELECTRIC DIVISION****NUMBER OF METERS IN SERVICE****(Unaudited)****Years Ended June 30,**

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<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	<u>Total</u>
1989	21,991	3,293	479	137	25,900
1990	22,110	3,470	493	133	26,206
1991	22,211	3,510	515	130	26,366
1992	22,058	3,393	680	413	26,544
1993	22,422	3,466	646	224	26,758
1994	22,378	3,546	685	228	26,837
1995	22,758	3,656	781	231	27,426
1996	23,514	3,771	826	225	28,336
1997	24,536	3,996	817	201	29,550
1998	25,053	4,147	853	214	30,267
1999	25,153	4,309	897	204	30,563
2000	25,591	4,390	993	186	31,160
2001	25,749	4,417	1,045	247	31,458
2002	26,194	4,672	946	235	32,047

Unaudited – See independent auditors' report.

***JACKSON ENERGY AUTHORITY  
GAS DIVISION***

**Jackson, Tennessee**

**Financial Statements and Supplementary Information**

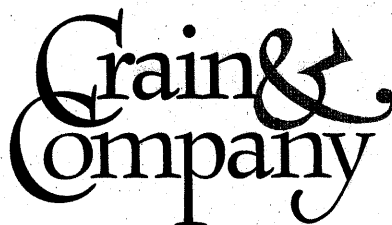
**Years Ended June 30, 2002 and 2001**

# ***JACKSON ENERGY AUTHORITY - GAS DIVISION***

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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Elizabeth A. Acree, CPA  
Dale Cavaness, CPA  
C. Mickey Hannon, CPA  
John E. Hudson, CPA  
Tony R. Jones, CPA

S. Lawson Crain, CPA  
R. Thomas Crenshaw, CPA  
Mark M. Layne, CPA  
Katherine G. Watts, CPA  
Anita C. Hamilton, CPA

Amy K. Santaniello, CPA  
Jason T. Shanes, CPA  
Tamara H. Stanfill, CPA  
Karen L. Taylor, CPA  
Trenton D. Watrous, CPA, CVA  
Roger D. Worrell, CPA

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Jackson Energy Authority  
Jackson, Tennessee

We have audited the balance sheets of Jackson Energy Authority – Gas Division and Jackson Utility Division – Gas System as of June 30, 2002 and June 30, 2001, respectfully, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements as of and for the period ended June 30, 2002 present only Jackson Energy Authority – Gas Division and are not intended to present the combined financial position or combined results of operations of Jackson Energy Authority.

As discussed in Note 1, the financial statements as of and for the period ended June 30, 2001 present only the Jackson Utility Division – Gas System and are not intended to present the financial position or results of operations of the City of Jackson, Tennessee, or of any other proprietary or similar trust fund types.


As discussed in Note 16 to the financial statements, the Authority adopted and implemented Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, during the fiscal year ended June 30, 2002.

Independent Auditors' Report  
(Continued)

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Jackson Energy Authority - Gas Division and Jackson Utility Division - Gas System as of June 30, 2002 and June 30, 2001, respectfully, and the results of their operations and their cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated September 6, 2002 on our consideration of Jackson Energy Authority - Gas Division's and Jackson Utility Division - Gas System's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information listed as supplemental information and Management's Discussion and Analysis (MD&A) in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Jackson Energy Authority - Gas Division or Jackson Utility Division - Gas System. The MD&A and Historical Pension Information are required by the GASB, upon which we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation, however, we did not audit the information and express no opinion on it. The other supplemental information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

  
CRAIN & COMPANY  
Certified Public Accountants

Jackson, Tennessee  
September 6, 2002

**Jackson Energy Authority**  
**Management's Discussion and Analysis**  
**June 30, 2002**

**Required Financial Statements**

The Financial Statements of the Jackson Energy Authority report information using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Balance Sheet includes all of the Energy Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the Energy Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the operations over the past year and can be used to analyze the results of the Energy Authority's operation. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash position resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, for what was cash used, and what was the change in cash balance during the reporting period.

This section of the annual financial report presents our analysis of the Gas Division's financial performance during the Fiscal Year that ended June 30, 2002. It should be read in conjunction with the financial statements and notes that follow this section.

**Financial Highlights**

- Net assets of the Gas Division increased by \$3.1 million or 7.89 %.
- Total long-term debt decreased by \$4.5 million compared to the fiscal year 2001.
- Net revenues of the Gas Division decreased to \$34.8 million from \$35.8 million, or 2.96%.
- Operating expenses decreased 2.84 % from \$33.8 million in fiscal year 2001 to \$32.8 million in fiscal year 2002.

Fiscal year 2002 is the first period that the Energy Authority applied Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Energy Authority has restated prior periods for purposes of providing comparative data for the Management's Discussion and Analysis. Statement No. 34 requires recording of certain capital assets, and in accordance with the Statement, the Gas Division has increased net assets as of July 1, 2000 by \$637,789 to record donated capital assets. The change also grew the increase in net assets by \$13,894 for the period ended June 30, 2001.

**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

**Financial Analysis**

The following table summarizes the changes in Net Assets between June 30, 2001 and 2002:

**Gas Division** (in thousands of dollars):

	<u>2002</u>	<u>2001</u>	<u>% change</u>
Current and Other Assets	\$19,181	\$26,013	(26.26%)
Capital Assets	<u>55,472</u>	<u>53,276</u>	<u>4.12%</u>
<b>Total Assets</b>	<b><u>74,653</u></b>	<b><u>79,289</u></b>	<b><u>(5.85%)</u></b>
Long-Term Debt	26,261	30,735	(14.56%)
Other Liabilities	<u>5,560</u>	<u>8,855</u>	<u>(37.21%)</u>
<b>Total Liabilities</b>	<b><u>31,821</u></b>	<b><u>39,590</u></b>	<b><u>(19.62%)</u></b>
Invested in Capital Assets, Net of Related Debt	35,842	32,873	9.03%
- Restricted	452	3,552	( 87.27%)
- Unrestricted	<u>6,538</u>	<u>3,274</u>	<u>99.69%</u>
<b>Total Net Assets</b>	<b><u>\$42,832</u></b>	<b><u>\$39,699</u></b>	<b><u>7.89%</u></b>

The table indicates that the largest portion of the Gas Division's net assets (82.8%) represents its investment in capital assets (e.g. land and easements, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. Another significant portion of the division's net assets is \$6.9 million in unrestricted net assets, which may be used to meet ongoing obligations.

Net assets of the Gas Division increased by \$3.1 million during the current fiscal year. This increase reflects capital assets financed in part by equity from capital contributions. The increase in the Division's capital assets was \$2.2 million in fiscal year 2002. The balance of the increase in capital assets was financed from current and other assets, which decreased by \$6.8 million to \$19.2 million in fiscal year 2002 from \$26.0 million in fiscal year 2001.

The following table summarizes the variances in the Statement of Revenues, Expenses and Changes in Net Assets between fiscal years 2001 and 2002:



**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

**Gas Division** (in thousands of dollars):

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Operating Revenues	\$34,782	\$35,842	(2.96%)
Operating Expenses	32,822	33,780	(2.84%)
Net Operating Income	1,960	2,062	(4.95%)
Interest income & other	2,119	2,152	(1.53%)
Interest expense	1,032	1,324	(22.05%)
Income before Contributed Capital	3,047	2,890	5.43%
Capital Contributions	86	14	514.29%
Change in Net Assets	3,133	2,904	7.89%
Total Net Assets – beginning as restated	<u>39,699</u>	<u>36,795</u>	<u>7.89%</u>
Total Net Assets – ending, as restated	<u>\$42,832</u>	<u>\$39,699</u>	<u>7.89%</u>

A close examination of the Statement of Revenues, Expenses, and Changes in Net Assets reveals that the Gas Division's 2002 revenues decreased \$1.06 million or 2.96% from fiscal year 2001. The variance from last year can be attributed to a warmer than normal winter, coupled with a softening economy. More than 34% of the Division's long-term liabilities have been financed through variable rate debt. This strategy proved to be advantageous during this historically low interest rate market. Because of this move, interest expense was almost \$300,000 lower in fiscal year 2002 than it was in fiscal year 2001.

**Utility Plant and Debt Administration**

The Gas Division's net utility plant increased \$2.2 million from \$53.3 million in fiscal year 2001 to \$55.5 million in fiscal year 2002. This investment in capital assets includes land and easements, infrastructure, structures and improvements, vehicles and equipment, general office furniture & fixtures, and construction in progress.

Major capital expenditures during the fiscal year included the following:

- System Expansion to Spring Creek Area
- Gas main expansion to Medina Area
- New gas mains (subdivisions) and service lines
- System Expansion on North Highland

**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

At June 30, 2002, the Gas Division had long-term debt outstanding of \$26.3 million compared to \$30.7 million in the prior year. This amount is primarily comprised of \$6.2 million in notes payable to the Wastewater Division and First Tennessee Bank, \$18.7 million of revenue and revenue refunding bonds and \$1.4 million in Capital Leases and Customer Deposits. During the year, retirement of debt amounted to \$3.4 million. Additions and other adjustments decreased long-term debt by another \$1.0 million. A total refunding of all outstanding long-term debt is planned to occur in fiscal year 2003. This refunding is necessary to acquire outstanding debt from the City of Jackson, pursuant to Chapter No. 55 of the Private Acts, 2001.

**Currently Known Facts, Decisions or Conditions**

The Gas Division continues to purchase its entire gas supply from The Tennergy Corporation under a ten-year prepay agreement. The Authority is in the fourth year of this agreement and purchases gas at twenty-two cents below market price.

Other than the quarterly purchase gas adjustment that reflects expected gas cost, no rate adjustments to retail rates are planned for next fiscal year.

The economic downturn continues to adversely affect gas sales.

A four million dollar bond issue will be completed in fall of 2002 to fund expected capital expenditures for the next two years.

# JACKSON ENERGY AUTHORITY - GAS DIVISION

## BALANCE SHEETS

### ASSETS

	June 30,	
	2002	2001
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,356,467	\$ 2,576,919
Accounts receivable - customers (less allowance for uncollectible accounts of \$58,977 and \$88,561 for 2002 and 2001, respectively)	1,877,048	2,532,539
Receivable from The Tennergy Corporation	521,895	674,889
Dividends receivable	1,028,000	1,028,000
Accrued interest receivable	420	1,665
Materials and supplies	1,391,134	1,318,141
Deferred expense	-	10,923
Prepaid expenses, miscellaneous receivables and other	159,004	166,498
Gas supply imbalances	-	16,751
Total current assets	<u>7,333,968</u>	<u>8,326,325</u>
<b>Restricted assets</b>		
Debt service fund - cash and cash equivalents	380,404	381,326
Construction fund - cash and cash equivalents	<u>217,052</u>	<u>3,323,475</u>
Total restricted assets	<u>597,456</u>	<u>3,704,801</u>
<b>Utility plant - at cost</b>		
Gas plant in service and equipment	71,599,900	67,763,015
Less: accumulated depreciation	<u>19,263,758</u>	<u>17,476,564</u>
Total utility plant - at cost	52,336,142	50,286,451
Construction in progress	<u>3,136,397</u>	<u>2,989,114</u>
Utility plant - net	<u>55,472,539</u>	<u>53,275,565</u>
<b>Other assets</b>		
Investments - The Tennergy Corporation	4,189,867	3,154,301
Investments - other	10,000	10,000
Unamortized bond and note issue cost	242,428	263,154
Unrecovered purchased gas cost	5,826,596	9,473,974
Deferred cost - GIS project	<u>980,112</u>	<u>1,080,812</u>
Total other assets	<u>11,249,003</u>	<u>13,982,241</u>
Total assets	<u>\$ 74,652,966</u>	<u>\$ 79,288,932</u>

## LIABILITIES AND NET ASSETS

	June 30,	
	2002	2001
<b>Liabilities</b>		
Current liabilities (payable from current assets)		
Accounts payable	\$ 2,314,199	\$ 2,936,247
Accrued expenses	856,001	817,822
Capital lease payable	28,792	31,819
Current maturities of long-term notes payable	1,296,558	4,163,561
Gas supply imbalances	4,528	-
	<u>4,500,078</u>	<u>7,949,449</u>
Current liabilities (payable from restricted assets)		
Accrued revenue bond interest	146,002	153,189
Current portion of revenue bonds (net of unamortized discount of \$36,214 and \$37,813 for 2002 and 2001, respectively)	913,786	752,187
	<u>1,059,788</u>	<u>905,376</u>
Long-term liabilities		
Customer deposits	1,328,993	994,162
Revenue bonds payable (net of unamortized discount of \$291,876 and \$328,090 for 2002 and 2001, respectively and net of loss on refunding of \$16,944 and \$18,781 for 2002 and 2001 respectively)	18,661,179	19,573,129
Long-term notes payable (less current maturities)	6,244,797	10,122,465
Capital lease payable	26,488	45,563
	<u>26,261,457</u>	<u>30,735,319</u>
Total long-term liabilities	<u>26,261,457</u>	<u>30,735,319</u>
Total liabilities	<u>31,821,323</u>	<u>39,590,144</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	35,469,829	32,453,844
Restricted for capital projects	217,052	3,323,475
Restricted for debt service	234,402	228,137
Unrestricted	6,910,360	3,693,332
	<u>42,831,643</u>	<u>39,698,788</u>
Total net assets	<u>42,831,643</u>	<u>39,698,788</u>
Total liabilities and net assets	<u>\$ 74,652,966</u>	<u>\$ 79,288,932</u>

See accompanying notes to financial statements.

# **JACKSON ENERGY AUTHORITY - GAS DIVISION**

## **STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

	Years Ended June 30,	
	2002	2001
Operating revenue	\$ 34,782,115	\$ 35,842,458
Operating expenses		
Gas purchased	23,532,446	24,787,771
Operating expenses (Scheduled)	4,853,459	4,718,330
Maintenance expenses (Scheduled)	1,045,262	1,014,764
Provision for depreciation (less \$222,060 and \$366,953 for 2002 and 2001, respectively, allocated elsewhere)	2,206,424	2,081,707
Taxes, payroll	245,875	257,642
Tax equivalent	938,583	919,674
Total operating expenses	32,822,049	33,779,888
Total net operating income	1,960,066	2,062,570
Non-operating revenue (expenses)		
Interest and other income	2,119,388	2,151,851
Interest and other expense	(1,032,113)	(1,324,177)
Total non-operating revenue (expense)	1,087,275	827,674
Income before contributions	3,047,341	2,890,244
Capital contributions	85,514	13,894
Change in net assets	3,132,855	2,904,138
Net assets-beginning, as restated	39,698,788	36,794,650
Net assets-ending, as restated	\$ 42,831,643	\$ 39,698,788

See accompanying notes to financial statements.

**JACKSON ENERGY AUTHORITY - GAS DIVISION****STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2002	2001
Cash flows provided by (used for) operating activities:		
Receipts from customers	\$ 35,760,431	\$ 34,916,498
Payments to suppliers	(22,873,773)	(35,167,900)
Payments to employees	(3,299,359)	(3,492,492)
Tax equivalent expense paid to City of Jackson	(938,583)	(919,674)
Net cash provided by (used for) operating activities	<u>8,648,716</u>	<u>(4,663,568)</u>
Cash flows provided by investing activities:		
Dividends received	1,028,000	732,450
Interest income	<u>69,107</u>	<u>260,375</u>
Net cash provided by investing activities	<u>1,097,107</u>	<u>992,825</u>
Cash flows provided by (used for) capital financing activities:		
Proceeds from issuance of long term note payable	-	1,965,581
Principal payments on long term notes payable	(2,163,561)	(867,266)
Principal payments on revenue bonds payable	(790,000)	(780,000)
Proceeds from issuance of bond payable	-	5,563,600
Bond expense and costs of issuance paid	-	(65,377)
Bond debt expense paid	(6,308)	-
Purchase of property, plant and equipment	(4,453,651)	(6,259,429)
Removal cost of property, plant and equipment	(97,280)	(36,135)
Salvage of property, plant and equipment	23,057	18,851
Gain on sale of fixed assets	11,575	(4,421)
Interest expense	(982,167)	(1,237,511)
Principal payment under capital lease agreements	(34,175)	(18,547)
Deferred cost – GIS	<u>-</u>	<u>(15,350)</u>
Net cash used for capital financing activities	<u>(8,492,510)</u>	<u>(1,736,004)</u>
Cash flows provided by (used for) non-capital financing activities:		
Line of credit borrowings	3,000,000	9,000,000
Repayment of line of credit borrowings	<u>(7,581,110)</u>	<u>-</u>
Net cash provided by (used for) non-capital financing activities	<u>(4,581,110)</u>	<u>9,000,000</u>
Increase (decrease) in cash and cash equivalents	(3,327,797)	3,593,253
Cash and cash equivalents – beginning of year	<u>6,281,720</u>	<u>2,688,467</u>
Cash and cash equivalents – end of year	<u>\$ 2,953,923</u>	<u>\$ 6,281,720</u>

	Years Ended June 30,	
	2002	2001
Reconciliation of operating revenues to net cash provided by (used for) operating activities:		
Net operating income	\$ 1,960,066	\$ 2,062,570
Adjustments to reconcile net operating income to cash flows from operations:		
Depreciation	2,428,484	2,448,660
Provision for bad debts	165,000	102,000
Amortization of deferred costs	100,700	99,672
Changes in operating assets and liabilities:		
Receivables	643,485	(1,077,021)
Materials and supplies	(72,993)	(123,707)
Prepaid expenses and other current assets	16,082	4,975
Unrecovered purchased gas cost	3,647,378	(7,582,383)
Accounts payable	(622,048)	(668,020)
Other accrued expenses	47,731	(81,375)
Customer deposits	334,831	151,061
Net cash provided by (used for) operating activities	<u>\$ 8,648,716</u>	<u>\$ (4,663,568)</u>
Non-cash disclosure:		
Equipment acquired in capital lease	<u>\$ 12,074</u>	<u>\$ 69,648</u>
Contributed capital assets	<u>\$ 85,514</u>	<u>\$ 13,894</u>

See accompanying notes to financial statements.

# **JACKSON ENERGY AUTHORITY - GAS DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2002 and 2001**

---

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization**

Jackson Energy Authority (the Authority) – Gas Division (the Division) was formed July 1, 2001 pursuant to Chapter No. 55 of the Private Acts, 2001 cited as the Jackson Energy Authority Act and, as such, is a political subdivision of the State of Tennessee. The legislation creating the Authority amended the acts that established Jackson Utility Division. The Authority was created as a separate legal entity for the purpose of planning, acquiring, constructing, improving, furnishing, equipping, financing, owning, operating and maintaining electric, gas, water, wastewater and telecommunications utilities systems within or outside the corporate limits City of Jackson, Tennessee and other such utility systems as a municipal water, wastewater, gas, telecommunications or electric utility is authorized by the general laws of the State of Tennessee to own or operate. Upon creation of the Authority, the City of Jackson was authorized to transfer to the Authority all its rights, title and interest in and to all the assets operated for the City by Jackson Utility Division. The accompanying financial statements present the financial position, results of operations and cash flows of Jackson Energy Authority – Gas Division as of and for the period ended June 30, 2002 and of Jackson Utility Division – Gas System as of and for the period ended June 30, 2001.

#### **Fund Accounting**

The Jackson Energy Authority - Gas Division uses enterprise fund accounting. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Jackson Utility Division – Gas System was an enterprise fund of the City of Jackson, Tennessee, and as such was an integral part of the City of Jackson.

The Division complies with Generally Accepted Accounting Principles (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Division applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. As allowed by GASB, the Division has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

#### **Basis of Accounting**

Basis of Accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Jackson Energy Authority – Gas Division, uses and Jackson Utility Division – Gas System used the accrual basis of accounting. Accrual basis accounting requires the recognition of revenues when earned and the recognition of expenses when incurred.

#### **Materials and Supplies Valuation**

Materials and supplies are valued at the lower of cost (first-in, first-out) or market value.



# **JACKSON ENERGY AUTHORITY - GAS DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Utility Plant and Depreciation**

Depreciation is calculated by the straight-line method at rates adequate to allocate the cost of applicable assets over their expected useful lives, and includes the amortization of assets accounted for as capital leases.

All acquisitions of property and equipment and all expenditures for repairs, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost.

#### **Income Taxes**

Jackson Energy Authority was created by state law as a governmental authority and is therefore exempt from federal and state income taxes.

#### **Bond Discounts and Issue Costs**

The Division has capitalized bond discounts and issue costs and is amortizing them over the lives of the bond issues.

#### **Investments**

The Public Act creating the Authority authorizes the following investments:

- (1) Direct obligations of the United States government or any of its agencies;
- (2) Obligations guaranteed as a principal and interest by the United States government or any of its agencies;
- (3) Certificates of deposit and other evidences of deposit at state and federal chartered banks, savings and loan institutions or savings banks deposited and collateralized;
- (4) Repurchase agreements entered into with the United States or its agencies or with any bank, broker-dealer or other such entity so long as the obligation of the obligated party is secured by a perfected pledge of full faith and credit obligations of the United States or its agencies;
- (5) Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified time period with entities rated in one (1) of the two (2) highest rating categories of a nationally recognized rating agency;
- (6) The local government investment pool;
- (7) Direct general obligations of the state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers and rated in either of the two (2) highest rating categories by a nationally recognized rating agency of such obligations; or
- (8) Obligations of any state of the United States or a political subdivision or instrumentality thereof, secured solely by revenues received by, or on behalf of, the state or political subdivision or instrumentality thereof irrevocably pledged to the payment of the principal and interest of such obligations, rated in the two (2) highest rating categories by a nationally recognized rating agency of such obligations.

# **JACKSON ENERGY AUTHORITY - GAS DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Cash and Cash Equivalents**

The Division considers all highly liquid investments (including restricted assets) with a maturity of three months or less from date acquired to be a cash equivalent. Cash investments are highly liquid investments but with a maturity of more than three months from the date acquired.

#### **Interest Costs**

The Division recognizes interest cost when the liability is incurred. Interest cost associated with the construction of fixed assets is capitalized when material. Other interest costs are expensed.

#### **Reclassifications**

Certain reclassifications have been made to the financial statements as of June 30, 2001, to conform with the June 30, 2002, presentation. Such reclassifications have had no effect on the net income for the year ended June 30, 2001, as previously reported.

#### **Compensated Absences**

The Division grants annual leave and sick leave based on longevity of service. Employees may accumulate up to 310 hours of annual leave, which is fully vested. Employees are not vested in sick leave until retirement at which time 30 percent of accumulated sick leave is paid to the employee. Starting January 1, 1999, the remaining 70 percent of the employee's accumulated sick leave is credited to the employee's number of years of service. The amount of such additional credit shall be determined by dividing such sick leave hours by 2,080 hours. In no event may such additional credit exceed one additional year of service. A liability of \$697,118 and \$738,437 has been accrued for the years ended June 30, 2002 and 2001, respectively, for future compensated absences earned to date.

#### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **NOTE 2 – INSURANCE COVERAGE**

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except for catastrophic coverage for fleet vehicles left on the premises overnight, the Division retains the risk of loss to the extent of property damage to such vehicles. The Division carries commercial insurance on all vehicles to mitigate the risk of loss associated with uninsured motorists and liability claims. The Division also carries commercial insurance on company owned vehicles driven by senior administration to mitigate the risk of loss associated with property damage as well as liability claims and uninsured motorists. There were no significant outstanding claims liabilities related to vehicle property damage at June 30, 2002 and 2001. The Division carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**JACKSON ENERGY AUTHORITY - GAS DIVISION****NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001****NOTE 2 – INSURANCE COVERAGE (Continued)**

Insurance Coverage consists of the following as of June 30, 2002:

<u>Insurer</u>	<u>Coverage</u>	<u>Expiration Date</u>	<u>Amount of Policy</u>
Affiliated FM Insurance Company	Fire and extended coverage-		
	90 percent co-insurance		
	Property		\$ 6,607,184
	Contents		2,070,474
	Contractor's equip		761,206
	Communication equip		396,359
	Flood and earthquake		5,000,000
	Boiler and machinery		10,000,000
	Garaged vehicles		2,349,775
	Transit		100,000
	Accounts receivable		250,000
	Valuable papers		250,000
	Expediting expense		100,000
	Land and water cleanup		100,000
	Cost of construction		1,000,000
Great Northern Insurance Company	Newly acquired property		1,000,000
	Extra expense	07-01-02	500,000
Great Northern Insurance Company	General automobile liability, bodily injury and property damage	07-01-02	1,000,000
Distributors Insurance Company	Commercial general liability (for claims over \$100,000)		
	individual		100,000
Distributors Insurance Company	aggregate	07-01-02	300,000
Lexington Insurance Company	Excess general liability (for claims over \$100,000 and \$300,000)		
	individual		900,000
	aggregate	07-01-02	2,700,000
Westchester Fire	Umbrella general liability	07-01-02	5,000,000
Distributors Insurance Company	Worker's Compensation	07-01-02	1,000,000
Zurich American Insurance Company	Public officials' & employees' liability	07-01-02	5,000,000

# JACKSON ENERGY AUTHORITY - GAS DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 2 – INSURANCE COVERAGE (Continued)

<u>Insurer</u>	<u>Coverage</u>	<u>Expiration Date</u>	<u>Amount of Policy</u>
Zurich American Insurance Company	Pension and benefit fiduciary responsibility	07-01-02	3,000,000
Travelers Insurance Company	Public employee dishonesty	07-01-02	500,000

A Voluntary Employee Benefit Association trust provides medical care and dental insurance coverage for its employees. Based on past experience, the Division pays non-refundable premiums to the trust to be used to pay medical care and dental benefit claims for employees. Claims in excess of \$100,000 are covered by reinsurance. Principal Financial Group is acting as administrator.

### NOTE 3 – REVENUE BONDS PAYABLE

The following is a summary of bond transactions for the years ended June 30, 2002 and 2001:

	<u>Years Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Bonds payable - beginning of year	\$ 20,710,000	\$ 15,890,000
Bonds payable – 2000 Issue	-	5,600,000
Bond principal paid – 1993 Issue	(370,000)	(380,000)
Bond principal paid – 1997 Issue	(270,000)	(255,000)
Bond principal paid – 1998 Issue	<u>(150,000)</u>	<u>(145,000)</u>
Bonds payable - end of year	<u>\$ 19,920,000</u>	<u>\$ 20,710,000</u>

Bonds payable at June 30, 2002 consist of \$5,600,000 Revenue Bonds, Series 2000 in annual installments of \$130,000 to \$355,000 from November 15, 2002 to November 15, 2026, with variable rates of interest payable monthly, \$3,565,000 Revenue Bonds, Series 1998, payable in annual installments of \$160,000 to \$310,000 from April 15, 2003 to April 15, 2018, with interest of 4.10% to 5.00% payable semi-annually from October 15, 2002 to April 15, 2018, \$4,150,000 Revenue Refunding Bonds, Series 1993, payable in annual installments of \$380,000 to \$550,000 from April 15, 2003 to April 15, 2011, with interest of 4.375% to 5.25% due semi-annually from October 15, 2002 to April 15, 2011, and \$6,605,000 Revenue Bonds, Series 1997, payable in annual installments of \$280,000 to \$585,000 from April 15, 2003 to April 15, 2018 with interest of 4.5% to 5.25% due semi-annually from October 15, 2002 to April 15, 2018.

The proceeds of the Series 2000 bonds were used by the Division to finance the expansion of and improvements to the Gas Division pursuant to a Resolution adopted by the Division on November 7, 2000. The redemption schedule for these bonds is included in the bond redemption schedule in this note. During any short-term interest period, the bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the Division's remarketing agent, SunTrust Equitable Securities Corporation. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. Under an irrevocable letter of credit issued by SunTrust Bank, the trustee or

# **JACKSON ENERGY AUTHORITY - GAS DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

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### **NOTE 3 – REVENUE BONDS PAYABLE (Continued)**

the remarketing agent is entitled to draw an amount sufficient to pay the purchase price and 50 days' accrued interest (at a maximum rate of 13% per annum) on such Bonds or that portion of the purchase price corresponding to the interest accrued thereon of bonds delivered to it. The letter of credit is valid through November 15, 2010 and carries a variable interest rate which would be a rate determined by the remarketing agent to be the minimum interest rate required to sell the bonds at a price of par with a maximum interest rate of 13% per annum. If the remarketing agent is unable to resell any "put" bonds before the end of the short-term interest period, which could be up to six months from the "put" date, the irrevocable letter of credit will serve as a take out agreement under which the remarketing agent will become the bond holder and will receive principal and interest payments according to the redemption schedule.

The Series 2000 Gas Revenue Bonds will be payable solely from, and are secured by a pledge of the Net Revenues of the Gas Division on an equality and parity of lien with respect to other obligations of the Gas Division. These bonds will also be payable from an irrevocable direct-pay Letter of Credit (the "Gas Division Credit Facility") issued by SunTrust Bank as the Credit Provider.

There are a number of requirements, limitations, and restrictions contained in the bond resolutions. Among these are deposits to be made to debt service. The Division is in compliance with these deposit requirements and with all significant limitations and restrictions.

**JACKSON ENERGY AUTHORITY - GAS DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)  
June 30, 2002 and 2001

**NOTE 3 - REVENUE BONDS PAYABLE (Continued)**

The annual debt service requirements for bond retirements are presented below:

Year Ending June 30,	Series 1993 Bonds		Series 1997 Bonds		Series 1998 Bonds		Series 2000 Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ 380,000	\$ 203,456	\$ 280,000	\$ 331,059	\$ 160,000	\$ 166,303	\$ 115,000	\$ 73,403	\$ 1,709,221
2004	400,000	186,356	295,000	317,059	165,000	159,663	120,000	71,657	1,714,735
2005	420,000	167,856	305,000	303,194	170,000	152,815	125,000	70,030	1,713,895
2006	440,000	148,431	320,000	288,706	180,000	145,675	130,000	68,337	1,721,149
2007	455,000	127,531	340,000	272,706	185,000	138,025	135,000	66,579	1,719,841
2008	480,000	104,781	355,000	255,706	195,000	130,070	145,000	64,715	1,730,272
2009	500,000	80,781	375,000	237,956	205,000	121,588	150,000	62,758	1,733,083
2010	525,000	55,781	390,000	218,831	210,000	112,465	160,000	60,695	1,732,772
2011	550,000	28,875	415,000	198,844	220,000	102,910	165,000	58,539	1,739,168
2012	-	-	430,000	177,575	230,000	92,680	175,000	56,279	1,161,534
2013	-	-	455,000	155,000	240,000	81,755	185,000	53,886	1,170,641
2014	-	-	480,000	132,250	255,000	69,995	195,000	51,361	1,183,606
2015	-	-	500,000	108,250	265,000	57,500	205,000	48,703	1,184,453
2016	-	-	525,000	83,250	280,000	44,250	215,000	45,913	1,193,413
2017	-	-	555,000	57,000	295,000	30,250	230,000	42,952	1,210,202
2018	-	-	585,000	29,250	310,000	15,500	240,000	39,831	1,219,581
2019	-	-	-	-	-	-	255,000	36,540	291,540
2020	-	-	-	-	-	-	270,000	33,049	303,049
2021	-	-	-	-	-	-	285,000	29,361	314,361
2022	-	-	-	-	-	-	300,000	25,474	325,474
2023	-	-	-	-	-	-	320,000	21,349	341,349
2024	-	-	-	-	-	-	340,000	16,960	356,960
2025	-	-	-	-	-	-	360,000	12,307	372,307
2026	-	-	-	-	-	-	380,000	7,388	387,388
2027	-	-	-	-	-	-	400,000	2,205	402,205
	<u>\$ 4,150,000</u>	<u>\$ 1,103,848</u>	<u>\$ 6,605,000</u>	<u>\$ 3,166,636</u>	<u>\$ 3,565,000</u>	<u>\$ 1,621,444</u>	<u>\$ 5,600,000 #</u>	<u>\$ 1,120,271</u>	<u>\$ 26,932,199</u>

# **JACKSON ENERGY AUTHORITY - GAS DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

### **NOTE 4 – RETIREMENT PLAN**

The Jackson Energy Authority has a retirement plan covering substantially all of its employees. The retirement plan is a single-employer defined benefit pension plan and is administered by the Jackson Energy Authority Retirement Committee. Aetna Life Insurance Company is the disbursing agent for benefits.

Each employee will enter the plan on the first of the month following the anniversary of his/her hire date and attainment of age 21.

The Plan provides for normal retirement at age 65, early retirement after attainment of age 55 and completion of 5 years of vesting service, delayed retirement beyond normal retirement age and disability retirement upon total and permanent disability after completion of 5 years of vesting service. Upon the death of the participant, survivor benefits are provided depending on the retirement benefit chosen. Article 8 of the Plan document assigns the authority to establish and amend benefit provisions to the Jackson Energy Authority Board of Directors. The Plan issues a stand-alone financial report which can be obtained from Aetna by calling 1-860-273-6197 and First Tennessee Bank at 1-901-681-2536.

The contribution requirements of plan members and Jackson Energy Authority are established and may be amended by the Jackson Energy Authority Board of Directors as granted by the plan document. Jackson Energy Authority contributes 8.28 percent of annual employee earnings on behalf of plan members. These employer contributions are treated as if they were made by the participant. Jackson Energy Authority is required to contribute an actuarially determined rate. The required actuarially determined contribution rates were 17.65 percent of the projected payroll payable at the end of each month for the period January 1, 2002 to December 31, 2002 and 16.49 percent of the projected payroll payable at the end of each month for the period January 1, 2001 to December 31, 2001.

For the years ended June 30, 2002 and 2001, Jackson Energy Authority's annual pension cost of \$2,050,871 and \$1,674,417, respectively, was equal to the Division's required and actual contributions. The required contributions were determined as part of the January 1, 2002 and 2001 actuarial valuations "attained age aggregate cost" funding method. The actuarial assumptions included (a) a 7.5 percent investment rate of return, (b) a projected salary increase of 4.5 percent per year, compounded annually, (c) a 3 percent per annum cost-of-living adjustment and (d) a rate of retirement to extend from ages fifty-five to sixty-five. The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

#### **Three-Year Trend Information for Jackson Energy Authority**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2000	\$ 1,703,035	100%	\$ -
June 30, 2001	\$ 1,674,417	100%	\$ -
June 30, 2002	\$ 2,050,871	100%	\$ -

The total retirement costs for the Gas Division for the years ended June 30, 2002 and 2001 were \$514,438 and \$479,229, respectively.

# JACKSON ENERGY AUTHORITY - GAS DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 5 – GAS RATES IN FORCE AS OF JUNE 30, 2002

#### RATE SCHEDULE R-1

<u>Monthly Rates:</u>		<u>Base Rate</u>	<u>Purchased Gas Adjustment</u>	<u>Surcharge Adjustment</u>	<u>Current Rate</u>
First	5 Ccf	98.51¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	111.20¢ per Ccf
Next	5 Ccf	87.82¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	100.51¢ per Ccf
Next	20 Ccf	77.11¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	89.80¢ per Ccf
Excess over	30 Ccf	66.39¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	79.08¢ per Ccf

Minimum Monthly Charge: \$4.50 per meter

#### RATE SCHEDULE R-2

<u>Monthly Rates:</u>		<u>Base Rate</u>	<u>Purchased Gas Adjustment</u>	<u>Surcharge Adjustment</u>	<u>Current Rate</u>
First	5 Ccf	97.75¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	110.44¢ per Ccf
Next	5 Ccf	87.52¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	100.21¢ per Ccf
Next	20 Ccf	76.88¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	89.57¢ per Ccf
Excess over	30 Ccf	66.18¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	78.87¢ per Ccf

Minimum Monthly Charge: \$4.50 per meter

#### RATE SCHEDULE RO-1

<u>Monthly Rates:</u>		<u>Base Rate</u>	<u>Purchased Gas Adjustment</u>	<u>Surcharge Adjustment</u>	<u>Current Rate</u>
First	5 Ccf	101.01¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	113.70¢ per Ccf
Next	5 Ccf	89.99¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	102.68¢ per Ccf
Next	20 Ccf	78.97¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	91.66¢ per Ccf
Excess over	30 Ccf	67.94¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	80.63¢ per Ccf

Minimum Monthly Charge: \$4.75 per meter



**JACKSON ENERGY AUTHORITY - GAS DIVISION****NOTES TO FINANCIAL STATEMENTS****(Continued)****June 30, 2002 and 2001****NOTE 5 – GAS RATES IN FORCE AS OF JUNE 30, 2002 (Continued)****RATE SCHEDULE G-1**

<u>Monthly Rates:</u>		<u>Base Rate</u>	<u>Purchased Gas Adjustment</u>	<u>Surcharge Adjustment</u>	<u>Current Rate</u>
First	10 Ccf	94.55¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	107.24¢ per Ccf
Next	40 Ccf	84.84¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	97.53¢ per Ccf
Next	50 Ccf	75.11¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	87.80¢ per Ccf
Excess over	100 Ccf	65.42¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	78.11¢ per Ccf

Minimum Monthly Charge: \$6.50 per meter

**RATE SCHEDULE GO-1**

<u>Monthly Rates:</u>		<u>Base Rate</u>	<u>Purchased Gas Adjustment</u>	<u>Surcharge Adjustment</u>	<u>Current Rate</u>
First	10 Ccf	96.81¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	109.50¢ per Ccf
Next	40 Ccf	86.65¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	99.34¢ per Ccf
Next	50 Ccf	76.50¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	89.19¢ per Ccf
Excess over	100 Ccf	66.36¢ per Ccf	(10.80)¢ per Ccf	23.49 ¢ per Ccf	79.05¢ per Ccf

Minimum Monthly Charge: \$7.00 per meter

**OFF-PEAK GAS RATE SCHEDULE OP-1  
MONTHLY RATE**

<u>DEMAND CHARGE:</u>		<u>Base Rate</u>	<u>Purchased Gas Adjustment</u>	<u>Surcharge Adjustment</u>	<u>Current Rate</u>
First	250 Ccf	\$150 .00 minimum	--	--	\$150.00 minimum
Excess over	250 Ccf	40.00¢ per Ccf	--	--	40.00¢ per Ccf

**COMMODITY CHARGE:**

First	1,000 Ccf	65.18¢ per Ccf	(11.70)¢ per Ccf	24.20¢ per Ccf	77.68¢ per Ccf
Next	4,000 Ccf	55.72¢ per Ccf	(11.70)¢ per Ccf	24.20¢ per Ccf	68.22¢ per Ccf
Next	10,000 Ccf	49.70¢ per Ccf	(11.70)¢ per Ccf	24.20¢ per Ccf	62.20¢ per Ccf
Excess over	15,000 Ccf	47.84¢ per Ccf	(11.70)¢ per Ccf	24.20¢ per Ccf	60.34¢ per Ccf

# JACKSON ENERGY AUTHORITY - GAS DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 5 - GAS RATES IN FORCE AS OF JUNE 30, 2002 (Continued)

#### INTERRUPTIBLE GAS TRANSPORTATION RATE SCHEDULE T-1 MONTHLY RATE

Commodity Charge:	
First 120,000 Ccf	8.4100¢ per Ccf
Next 170,000 Ccf	6.0100¢ per Ccf
Next 200,000 Ccf	3.6100¢ per Ccf
Over 490,000 Ccf	1.5100¢ per Ccf

Customer charge - \$200.00 per meter

#### FIRM GAS TRANSPORTATION RATE SCHEDULE T-2 MONTHLY RATE

DEMAND CHARGE:	Base Rate	Purchased Gas Adjustment	Surcharge Adjustment	Current Rate
First 1,000 Ccf	\$400 .00 minimum	--	--	\$400.00 minimum
Excess over 1,000 Ccf	40.00¢ per Ccf	--	--	40.00¢ per Ccf
COMMODITY CHARGE:				
First 120,000 Ccf	10.100¢ per Ccf	--	--	10.100¢ per Ccf
Next 170,000 Ccf	7.210¢ per Ccf	--	--	7.210¢ per Ccf
Next 200,000 Ccf	4.330¢ per Ccf	--	--	4.330¢ per Ccf
Excess over 490,000 Ccf	1.810¢ per Ccf	--	--	1.810¢ per Ccf

The Gas Division served 27,453 and 27,087 natural gas customers as of June 30, 2002 and 2001, respectively. There are no unmetered customers.

The Gas Division served 2,853 and 2,641 propane customers as of June 30, 2002 and 2001, respectively.

#### FIRM PROGAS RATE SCHEDULE MONTHLY RATE

Metered Service – \$1.10 per gallon  
Customer Charge of \$4.00 month

Bulk Service – \$1.08 per gallon – ProGas tank, with an annual tank rental fee of \$42.00  
\$1.08 per gallon – non ProGas tank  
Rate fluctuates with market

**JACKSON ENERGY AUTHORITY - GAS DIVISION****NOTES TO FINANCIAL STATEMENTS****(Continued)****June 30, 2002 and 2001****NOTE 6 – GAS PLANT IN SERVICE AND EQUIPMENT ADDITIONS AND RETIREMENTS**

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Reclassifi- cations and Retirements</u>	<u>Balance June 30, 2002</u>
Land and land rights	\$ 214,209	\$ -	\$ -	\$ 214,209
Structures and improvements	3,564,183	917,498	(25,409)	4,456,272
Mains, services and meters	53,778,799	2,966,523	(351,712)	56,393,610
Production and distribution equipment	4,624,993	22,419	-	4,647,412
Transportation equipment	2,265,977	164,178	(126,580)	2,303,575
Office furniture and equipment	1,637,259	161,088	(17,624)	1,780,723
Tools and miscellaneous equipment	532,093	33,333	(4,250)	561,176
Communication equipment	710,959	143,979	-	854,938
Acquisition adjustment	<u>434,543</u>	<u>-</u>	<u>(46,558)</u>	<u>387,985</u>
Total	<u>\$ 67,763,015</u>	<u>\$ 4,409,018</u>	<u>\$ (572,133)</u>	<u>\$ 71,599,900</u>

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Reclassifi- cations and Retirements</u>	<u>Balance June 30, 2001</u>
Land and land rights	\$ 189,577	\$ 24,632	\$ -	\$ 214,209
Structures and improvements	3,407,965	179,094	(22,876)	3,564,183
Mains, services and meters	50,582,894	3,332,766	(136,861)	53,778,799
Production and distribution equipment	4,307,061	317,932	-	4,624,993
Transportation equipment	2,033,362	350,418	(117,803)	2,265,977
Office furniture and equipment	1,433,616	215,135	(11,492)	1,637,259
Tools and miscellaneous equipment	460,650	71,443	-	532,093
Communication equipment	645,452	65,507	-	710,959
Acquisition adjustment	<u>-</u>	<u>434,543</u>	<u>-</u>	<u>434,543</u>
Total	<u>\$ 63,060,577</u>	<u>\$ 4,991,470</u>	<u>\$ (289,032)</u>	<u>\$ 67,763,015</u>

# JACKSON ENERGY AUTHORITY - GAS DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 7 - CASH AND CASH EQUIVALENTS AND CASH INVESTMENTS

At June 30, 2002, cash and cash equivalents and cash investments under the classifications of current and restricted assets consisted of the following:

<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Date Acquired</u>	<u>Maturity Date</u>	<u>Market Value</u>
<b>Current assets</b>					
Cash and cash equivalents					
Operating fund - FB	\$ 2,356,467	*	n/a	n/a	\$ 2,356,467
Total current assets	\$ 2,356,467				
<b>Restricted assets</b>					
Cash and cash equivalents					
Construction fund	\$ 217,052	n/a	n/a	n/a	\$ 217,052
General cash	200	n/a	n/a	n/a	200
Certificate of deposit	380,204	2.49%	6/14/02	7/12/02	380,204
Total restricted assets	\$ 597,456				

At June 30, 2001, cash and cash equivalents and cash investments under the classifications of current and restricted assets consisted of the following:

<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Date Acquired</u>	<u>Maturity Date</u>	<u>Market Value</u>
<b>Current assets</b>					
Cash and cash equivalents					
Operating fund - FB	\$ 2,576,919	1.81	n/a	n/a	2,576,919
Total current assets	\$ 2,576,919				
<b>Restricted assets</b>					
Cash and cash equivalents					
Construction fund	\$ 823,475	n/a	n/a	n/a	\$ 823,475
Certificate of deposit	2,500,000	3.73%	6/29/01	7/27/01	2,500,000
Certificate of deposit	381,326	3.75%	6/08/01	7/13/01	381,326
Total restricted assets	\$ 3,704,801				

# **JACKSON ENERGY AUTHORITY - GAS DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001**

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### **NOTE 7 – CASH AND CASH EQUIVALENTS AND CASH INVESTMENTS (Continued)**

Deposits in excess of amounts insured by the Federal Deposit Insurance Corporation are insured by securities held in the Tennessee Collateral Pool. These deposits are category 1 - insured or collateralized with securities held by the entity or by its agent in the entity's name.

\* This is the Authority's general revenue checking account at June 30, 2002 and June 30, 2001. Each Division reports its share of the account. Interest is earned on the daily revenue fund balance. The interest rate is 103.2 percent of the Federal Funds Target Rate of the FOMC. This rate applies for one week and is used to calculate the interest on a daily basis. Interest is added to the account monthly. A service fee, based on actual cost, not to exceed \$1,200, is paid each month by the Authority for this banking service.

### **NOTE 8 – DEFERRED COMPENSATION PLAN**

The Division offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Division employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

IRC Section 457 was changed August 20, 1996, to require that all assets and liabilities be held in trust for the exclusive benefit of participants and their beneficiaries. The Division's plan was amended to adopt the required changes. The changes were effective January 1, 1997.

### **NOTE 9 – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

In addition to providing pension benefits, the Division provides certain health care, dental and life insurance benefits for retired employees. Substantially all of the Division's employees may become eligible for those benefits if they reach age fifty-five while working for the Division. The health care and dental benefits are provided by a self-insurance trust plan with an insurance company acting as administrator. Retired employees over the age of sixty-five are covered by a "Medicare carve-out" plan which provides the same benefits except Medicare is the primary payer. The Plan provides for reinsurance for claims in excess of \$100,000. Not all of the retired employees are eligible for dental benefits.

The cost of the health care and dental benefits is \$617,634 and \$562,754 for the years ended June 30, 2002 and 2001, respectively. The cost of providing the health care and dental benefits for fifty-four and fifty-four retirees for the years ended June 30, 2002 and 2001, respectively, is not separable from the cost of providing the health care and dental benefits for eighty-six and ninety-four active employees for the years ended June 30, 2002 and 2001, respectively. The cost of the life insurance benefits are \$23,445 and \$38,957 for the years ended June 30, 2002 and 2001, respectively. The cost of providing the life insurance benefits for fifty-four and fifty-four retirees for the years ended June 30, 2002 and 2001, respectively, is not separable from the cost of providing life insurance benefits for eighty-six and ninety-four active employees for the years ended June 30, 2002 and 2001, respectively.

# JACKSON ENERGY AUTHORITY - GAS DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 10 - GEOGRAPHIC OPERATIONS

The Division's facilities and operations are within the immediate West Tennessee counties and it derives its revenues primarily from natural gas sales and transportation to customers within the City of Jackson and Madison County, Tennessee. ProGas is an operating group of the Gas Division that retails propane to customers in Jackson and the adjacent areas. A major component of this operation is an adequate supply of propane with the related storage facilities and adequate delivery capabilities.

### NOTE 11 - MAJOR SUPPLIERS

For the year ended June 30, 2002, the Division purchased 100 percent of its natural gas and propane from The Tennergy Corporation.

### NOTE 12 - NOTES PAYABLE

Notes payable are summarized as follows:

	June 30, 2002		June 30, 2001	
	Due Within One Year	Due After One Year	Due Within One Year	Due After One Year
Wastewater Division (a)	\$ 1,250,000	\$ 1,500,000	\$ 2,117,003	\$ 2,750,000
First Tennessee Bank (b)	-	4,418,890	2,000,000	7,000,000
Humboldt Utilities (c)	46,558	325,907	46,558	372,465
	<u>\$ 1,296,558</u>	<u>\$ 6,244,797</u>	<u>\$ 4,163,561</u>	<u>\$ 10,122,465</u>

(a) Long-term notes payable - Wastewater consists of \$1,250,000 payable July 1, 2002 including interest at 7.00% per annum and \$1,500,000 payable in one installment on July 1, 2003 including interest of 7.00% per annum. The two notes are unsecured.

As of June 30, 2002, the notes are expected to mature as follows:

Year Ended June 30,

2003	\$ 1,250,000
2004	1,500,000
2005	-
2006	-
2007	-
Thereafter	-
	<u>\$ 2,750,000</u>

(b) Long-term note payable - First Tennessee Bank consists of a line of credit up to \$9,000,000, with a variable rate of interest. The variable rate of interest shall be the lesser of the maximum legal rate of interest or the one month London Inter Bank Offered Rates, plus 1.35% per annum adjusted monthly on the first day of each month. Interest is payable monthly on the 9<sup>th</sup>. The note is unsecured and the balance owed June 30, 2002 of \$4,418,890 is all classified as a long-term portion of the note payable and is expected to be paid on August 9, 2003.

# JACKSON ENERGY AUTHORITY - GAS DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 12 – NOTES PAYABLE (Continued)

(c) The balance of the note payable due Humboldt Utilities represents the acquisition of gas distribution system and customers from Humboldt Utilities in north Madison County, Tennessee. The note is non-interest bearing and is payable in annual installments of \$46,558 and is expected to mature as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2003	\$ 46,558
2004	46,558
2005	46,558
2006	46,558
2007	46,558
2008 - 2010	<u>139,675</u>
	<u>\$ 372,465</u>

### NOTE 13 – CAPITAL LEASES

The Division leases certain equipment with lease terms through June, 2005. Obligations under capital leases have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at various interest rates per annum.

Obligations under capital leases consist of the following at June 30,

	<u>2002</u>	<u>2001</u>
Total	\$ 55,280	\$ 77,382
Less: Current portion	<u>28,792</u>	<u>31,819</u>
Long term portion	<u>\$ 26,488</u>	<u>\$ 45,563</u>

The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments are as follows for the years ended June 30,

2003	\$ 30,411
2004	26,462
2005	<u>682</u>
Total future minimum lease payments	57,555
Less: Amount representing interest	<u>2,275</u>
Present value of future minimum lease payments	<u>\$ 55,280</u>

# **JACKSON ENERGY AUTHORITY - GAS DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001**

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### **NOTE 14 – ACCOUNTS RECEIVABLE – THE TENNERGY CORPORATION**

Jackson Energy Authority has entered into a Natural Gas Supply Agreement with the Tennergy Corporation whereby Jackson Energy Authority has agreed to purchase specified daily volumes of natural gas during each calendar month at a specified price for the ten-year term of the agreement, which is May 1, 1999 through April 30, 2009. Following the completion of each twelve-month period ending June 30 during the term of this agreement, The Tennergy Corporation is required to compare its revenues and expenses relating to such period. To the extent such comparison demonstrates an excess of revenues over expenses The Tennergy Corporation may make a refund to Jackson Energy Authority in amounts within the discretion of its Board of Directors. The Board of Directors of The Tennergy Corporation resolved on June 24, 2002, to authorize the corporation to refund an amount equal to fourteen cents (\$0.14) times the participants total actual volume of gas taken for the period of July 1, 2001, through June 30, 2002, with such refund being made no later than July 19, 2002. As of June 30, 2002 and 2001, the amount due to Jackson Energy Authority was \$521,895 and \$674,889, respectively.

### **NOTE 15 – THE TENNERGY CORPORATION**

The Tennergy Corporation began operations on April 1, 1998 as a joint venture among the Board of Utility Commissioners of the City of Jackson, Tennessee, the Board of Public Utilities of Humboldt, Tennessee and the City of Brownsville Utilities Board. The Tennergy Corporation is an energy acquisition company as provided by the laws of the State of Tennessee. The Corporation's purpose is to purchase and resell energy, including natural gas, electricity, and propane and to provide consulting and management services to other utilities. As of June 30, 2002 and 2001, the Division's investment in The Tennergy Corporation amounted to \$4,189,868 and \$3,154,301 respectively. The investment income from The Tennergy Corporation amounted to \$2,063,567 and \$1,958,110 for the years ended June 30, 2002 and 2001 respectively.

The Gas Division's investment in The Tennergy Corporation represented 73 percent and 73 percent interest as of June 30, 2002 and 2001, respectively.

On June 30, 2002 and 2001, The Tennergy Corporation had total assets of \$223,731,642 and \$258,495,445, and total liabilities of \$214,888,109 and \$251,968,644, respectively. These assets and liabilities reflect investment interests that include, but are not limited to, both the Gas and Electric Divisions of Jackson Energy Authority. Separate financial statements of The Tennergy Corporation can be obtained from the Corporation in Jackson, Tennessee.

### **NOTE 16 – ACCOUNTING CHANGE**

As of July 1, 2000, the Authority adopted Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 requires recording of certain capital assets and in accordance with the Statement, the Gas Division has increased net assets as of July 1, 2000 by \$637,789 to record donated capital assets. The change also increased the increase in net assets by \$13,894 for the period ended June 30, 2001.

### **NOTE 17 – INTERDEPARTMENTAL RENT EXPENSE**

For the fiscal years ended June 30, 2002 and 2001, the Division paid rent to the Electric Division of \$4,246 and \$3,468 respectively, for the use of the mainframe computer, large copier and miscellaneous equipment.



# **JACKSON ENERGY AUTHORITY - GAS DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

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### **NOTE 18 – RELATED PARTY TRANSACTIONS**

For the fiscal years ended June 30, 2002 and 2001, the Division purchased \$16,439,248 and \$29,904,928 respectively of natural gas and \$818,668 and \$1,172,301 respectively of propane from The Tennergy Corporation. As of June 30, 2002 and 2001, the Division owed The Tennergy Corporation \$900,726 and \$1,267,509 respectively.

### **NOTE 19 – UNCERTAINTIES**

The Authority is a defendant in several suits, which are being defended by the Authority's public liability insurer. There is a \$100,000 deductible amount on this insurance. Therefore, any damages awarded under these suits would be the Authority's responsibility up to \$100,000. Amounts in excess of \$100,000 would be covered by insurance. Also, workers' compensation suits are being defended by the compensation carrier for the Authority.



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Elizabeth A. Acree, CPA  
Dale Cavaness, CPA  
C. Mickey Hannon, CPA  
John E. Hudson, CPA  
Tony R. Jones, CPA

S. Lawson Crain, CPA  
R. Thomas Crenshaw, CPA  
Mark M. Layne, CPA  
Katherine G. Watts, CPA  
Anita C. Hamilton, CPA

Amy K. Santaniello, CPA  
Jason T. Shanes, CPA  
Tamara H. Stanfill, CPA  
Karen L. Taylor, CPA  
Trenton D. Watrous, CPA, CVA  
Roger D. Worrell, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Jackson Energy Authority  
Jackson, Tennessee

We have audited the financial statements of the Jackson Energy Authority - Gas Division and Jackson Utility Division - Gas System as of and for the years ended June 30, 2002 and 2001, respectfully, and have issued our report thereon dated September 6, 2002. We conducted our audits in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Jackson Energy Authority - Gas Division's and Jackson Utility Division - Gas System's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Jackson Energy Authority - Gas Division's and Jackson Utility Division - Gas System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

26 SECURITY DRIVE • JACKSON, TENNESSEE 38305

PHONE: 731.668.7070 • FAX: 731.668.1218 • TOLL FREE: 877.892.7070 • www.craincpa.com • E-MAIL: [craininfo@craincpa.com](mailto:craininfo@craincpa.com)

Independent Auditors Report on Compliance  
and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government  
Auditing Standards*  
(Continued)

This report is intended for the information of the Board of Directors, management and government regulatory and granting agencies and is not intended to be and should not be used by anyone other than those specified parties.

*Crain & Company*

CRAIN & COMPANY  
Certified Public Accountants

Jackson, Tennessee  
September 6, 2002

**SUPPLEMENTARY INFORMATION**

**JACKSON ENERGY AUTHORITY - GAS DIVISION**  
**HISTORICAL PENSION INFORMATION**  
**June 30, 2002**

	January 1,			
	1993	1994	1995	1996
(1) Pension benefit obligation	\$ 32,450,851	\$ 35,287,736	\$ 38,518,851	\$ 42,199,778
(2) Net assets available for benefits	\$ 20,108,384	\$ 21,992,047	\$ 23,796,754	\$ 26,644,006
(3) Percent - (2) divided by (1)	61.97%	62.32%	61.77%	63.14%
(4) Unfunded pension benefit obligation (1) minus (2)	\$ 12,342,467	\$ 13,295,689	\$ 14,722,097	\$ 15,555,772
(5) Annual covered payroll	\$ 7,596,998	\$ 7,878,863	\$ 7,977,673	\$ 8,753,084
(6) Percent - (4) divided by (5)	162.47%	168.75%	184.54%	177.74%

An actuarial valuation is performed annually. The information presented above is taken from those reports and is supplementary information required by the Governmental Accounting Standards Board.

January 1,					
1997	1998	1999	2000	2001	2002
\$ 44,897,959	\$ 48,868,864	\$ 54,727,249	\$ 58,727,249	\$ 64,995,256	\$ 71,340,653
\$ 29,467,137	\$ 33,343,880	\$ 38,092,794	\$ 42,543,267	\$ 45,348,868	\$ 47,914,966
65.63%	68.23%	69.60%	72.44%	69.77%	67.16%
\$ 15,430,822	\$ 15,524,984	\$ 16,634,455	\$ 16,183,982	\$ 19,646,388	\$ 23,425,687
\$ 9,061,874	\$ 9,949,845	\$ 10,744,593	\$ 11,117,696	\$ 11,302,548	\$ 12,876,865
170.28%	156.03%	154.82%	145.57%	173.82%	181.92%

- a. The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding method, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.
- b. Looking at the pension benefit obligation, or the unfunded portion of the pension benefit obligation, in isolation can be misleading.
- (i) Expressing net assets available for benefits as a percentage of the pension benefit obligation (line 3) provides one indication of the extent to which a plan is funded. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.
  - (ii) Expressing the unfunded pension benefit obligation as a percentage of the annual covered payroll (line 6) approximately adjusts for the effects of inflation and aids analysis of funding progress. Generally, the smaller the unfunded percentage, the stronger the plan.

**JACKSON ENERGY AUTHORITY - GAS DIVISION**  
**OPERATING EXPENSES**

	Years Ended June 30,	
	2002	2001
Operating expenses		
Production	\$ 8,003	\$ 2,094
Distribution		
Supervision and engineering	198,929	205,577
Mains and services	119,818	184,825
Measuring and regulating	61,892	83,053
Meter house and regulation	169,063	324,985
Customer installation	390,043	327,058
Jobbing expenses	63,767	24,466
Maps and records	77,546	117,117
Office expense	271,767	292,726
Rents	4,131	3,904
Propane delivery	99,230	64,437
Total distribution - operations	<u>1,456,186</u>	<u>1,628,148</u>
Customer accounts		
Supervision	33,704	70,332
Meter reading	170,750	158,738
Accounting	170,373	177,487
Collecting	133,463	106,993
Billing	118,729	78,809
Data processing	185,055	160,735
Uncollectible accounts	165,000	141,236
Total customer accounts	<u>977,074</u>	<u>894,330</u>
Customer information and sales expense		
Customer assistance	235,054	198,921
Advertising	25,339	18,136
Miscellaneous	36,207	11,959
Total customer information and sales expense	<u>296,600</u>	<u>229,016</u>
Administrative and general		
Administrative salaries	248,468	234,715
Office salaries	327,544	315,235
Office supplies and expense	208,675	185,228
Special services	118,524	181,523
Insurance	168,959	134,415
Employees' pension and welfare	969,573	869,077
Miscellaneous	69,488	38,893
Rent	4,365	5,656
Total administrative and general	<u>2,115,596</u>	<u>1,964,742</u>
Total operating expenses	<u>\$ 4,853,459</u>	<u>\$ 4,718,330</u>

See independent auditors' report.

**JACKSON ENERGY AUTHORITY - GAS DIVISION**  
**MAINTENANCE EXPENSES**

---

	Years Ended June 30,	
	2002	2001
Maintenance Expenses		
Production	\$ 13,516	\$ 7,072
Distribution		
Supervision and engineering	37,333	40,243
Structures and improvements	3,585	2,291
Mains	478,937	448,957
Measuring and regulating	30,573	30,530
Services	294,293	336,245
Meters and regulators	84,355	74,537
Other equipment	34,584	12,017
Total distribution	963,660	944,820
Administrative and general	68,086	62,872
Total maintenance expenses	\$ 1,045,262	\$ 1,014,764

See independent auditors' report.



# JACKSON ENERGY AUTHORITY - GAS DIVISION

## DIVISION OPERATING STATISTICS 1998-2002

(Unaudited)

Fiscal Years Ended June 30,

	1998	1999	2000	2001	2002
System Input & Output (MFC @ 14.65 PSIG)					
Gas Receipts - quantities					
Purchases	4,238,643	3,686,711	4,081,431	4,548,635	3,608,653
Transportation receipts	3,775,371	4,223,630	4,226,322	3,623,238	3,775,736
Production	350	1,698	586	1,804	-
Total receipts	<u>8,014,364</u>	<u>7,912,039</u>	<u>8,308,339</u>	<u>8,173,677</u>	<u>7,384,389</u>
Gas Deliveries - quantities (MFC @ 14.65 PSIG)					
Sales	4,293,992	3,867,636	4,003,965	4,539,517	3,528,298
Transport deliveries	3,641,385	3,959,562	4,290,127	3,494,039	3,756,229
Company use	697	266	-	-	-
Total deliveries	<u>7,936,074</u>	<u>7,827,464</u>	<u>8,294,092</u>	<u>8,033,556</u>	<u>7,284,527</u>
Unaccounted for Gas (MCF)					
Unaccounted for	78,290	84,575	14,247	140,121	99,862
% Unaccounted for	0.98%	1.07%	0.17%	1.71%	1.35%
Statistics					
Maximum 24 hr send out	49,767	54,024	52,278	52,926	48,535
Purchased	37,776	39,995	39,730	43,607	41,856
Transported	12,191	12,618	12,548	9,319	6,679
Produced	-	1,411	-	-	-
Average 24 hr send out	20,838	21,677	22,675	22,375	19,073
Load factor	42%	41%	43%	42%	39%
Degree Day Data					
Day deficiency	3,318	2,757	2,790	3,688	3,016
Day deficiency - normal	<u>3,626</u>	<u>3,626</u>	<u>3,626</u>	<u>3,626</u>	<u>3,626</u>
Departure from normal	-308	-869	-836	+62	-610

Unaudited - See independent auditor's report.

**JACKSON ENERGY AUTHORITY - GAS DIVISION**  
**HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE**

(Unaudited)

Years Ended June 30,

	HISTORICAL			
	1998	1999	2000	2001
				2002
Operating revenues	\$ 37,667,830	\$ 22,291,189	\$ 23,767,660	\$ 35,842,458
Interest and other income	140,677	(67,073)	205,372	(250,396)
Tennergy	3,561	525,199	2,170,882	1,958,110
Total gross income	37,812,068	22,749,315	26,143,914	37,550,172
Current expenses				
Gas purchased	28,001,827	13,138,402	13,704,251	24,787,771
Operating expenses	3,969,125	4,031,655	4,247,096	4,718,330
Maintenance expenses	676,011	749,218	832,042	1,014,764
Operating and maintenance expenses	-	-	-	-
Taxes - payroll	211,828	207,270	221,223	257,642
Total current expenses (1)	32,858,791	18,126,545	19,004,612	30,778,507
Total revenue available for bond debt service	4,953,277	4,622,770	7,139,302	6,771,665
Bond debt service	1,130,290	1,378,753	1,545,181	1,663,197
Bond debt service coverage	4.40	3.35	4.62	4.07
				7,141,599
				1,623,906
				4.40

Source: Derived by the Division from annual reports for fiscal years 1998-2002.

**PROJECTED**

	2003	2004	2005	2006	2007
Operating revenues	\$ 32,984,249	\$ 32,527,475	\$ 35,221,510	\$ 37,117,228	\$ 38,836,161
Interest and other income	(21,969)	135,162	46,151	61,531	77,116
Tennergy	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,200,000</u>
Total gross income	<u>35,162,280</u>	<u>34,862,637</u>	<u>37,467,661</u>	<u>39,378,759</u>	<u>41,113,277</u>
Current expenses					
Gas purchased	21,219,540	18,875,543	20,767,389	21,973,560	23,298,388
Operating expenses	-	-	-	-	-
Maintenance expenses	-	-	-	-	-
Operating and maintenance expenses	5,848,000	6,094,494	6,336,575	6,585,792	6,841,922
Taxes - payroll	<u>260,901</u>	<u>270,917</u>	<u>282,178</u>	<u>293,022</u>	<u>304,547</u>
Total current expenses (1)	<u>27,328,441</u>	<u>25,240,954</u>	<u>27,386,142</u>	<u>28,852,374</u>	<u>30,444,857</u>
Total revenue available for bond debt service	7,833,839	9,621,683	10,081,519	10,526,385	10,668,420
Bond debt service	1,967,650	2,060,481	2,048,224	2,043,315	2,005,267
Bond debt service coverage	3.98	4.67	4.92	5.15	5.32

Unaudited - See independent auditors' report.

**JACKSON ENERGY AUTHORITY - GAS DIVISION**  
**TEN LARGEST CUSTOMERS**  
**(Unaudited)**  
**Fiscal Year 2002**

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<u>Number</u>	<u>Customer</u>	<u>Volume (ccf)</u>	<u>Revenue</u>		<u>Total Revenue</u>
			<u>Usage</u>	<u>Demand</u>	
1	AEMP Corp	1,182,644	\$ 852,597	\$ 25,580	\$ 878,177
2	Jackson Madison County General Hospital	674,660	454,101	23,901	478,002
3	Dal Tile, Inc.	863,158	403,321	12,000	415,321
4	VF Jeanswear	456,008	336,139	15,121	351,260
5	Procter & Gamble	6,255,834	262,002		262,002
6	Devilbiss	293,009	249,501		249,501
7	Ameristeel	6,470,070	239,608		239,608
8	Tennalum	327,269	230,295	8,694	238,989
9	Owens Corning Fiberglass	6,004,790	146,979	38,514	185,493
10	Ormet Aluminum	2,121,572	176,527	6,330	182,857

Note: Revenues from certain customers above are only from transportation charges.

# JACKSON ENERGY AUTHORITY - GAS DIVISION

## SUMMARY OF OPERATIONS

(Unaudited)

Years Ended June 30,

	1998	1999	2000	2001	2002
Operating revenue	\$ 23,299,312	\$ 22,291,188	\$ 23,767,660	\$ 35,842,458	\$ 34,782,115
Gas purchased	13,894,448	13,138,401	13,704,251	24,787,771	23,532,446
Operating expenses	3,969,125	4,031,655	4,247,096	4,718,330	4,853,459
Maintenance	676,011	749,218	832,042	1,014,764	1,045,262
Depreciation	1,434,800	1,599,294	1,837,840	2,081,707	2,206,424
Taxes - payroll	211,828	207,270	221,223	257,642	245,875
Tax equivalent payments	590,403	728,325	820,786	919,674	938,583
Net income from operations	\$ 2,522,697	\$ 1,837,025	\$ 2,104,422	\$ 2,062,570	\$ 1,960,066
Tennergy operating income	\$ 261,140	\$ 525,199	\$ 2,170,882	\$ 1,958,110	\$ 2,063,567
Other income	124,623	108,634	291,354	193,741	141,335
Other expense	(793,715)	(1,047,069)	(1,092,415)	(1,324,177)	(1,032,113)
Net income	\$ 2,114,745	\$ 1,423,789	\$ 3,474,243	\$ 2,890,244	\$ 3,132,855

Unaudited - See independent auditors' report.

# JACKSON ENERGY AUTHORITY - GAS DIVISION

## CUSTOMERS AND REVENUE

(Unaudited)

Fiscal Year Ended June 30,	Total Customers (1)	Natural Gas			Transportation Revenue	Total Gas Division Sales
		Residential Customers	Revenue	Commercial & Industrial Customers	Revenue	
1986	16,798	15,083	\$ 5,632,762	1,715	\$ 10,127,019	\$ 16,810,775
1987	17,312	15,505	5,449,634	1,807	6,544,418	12,872,345
1988	17,646	15,759	5,920,268	1,887	6,106,372	12,809,019
1989	18,010	16,080	6,052,843	1,930	6,877,250	13,806,270
1990	18,543	16,558	6,186,354	1,985	8,120,910	15,199,638
1991	19,030	16,981	5,674,142	2,049	7,802,746	14,355,681
1992	19,722	17,629	6,019,506	2,093	7,837,101	15,163,174
1993	20,210	18,093	7,169,736	2,117	9,873,141	18,421,973
1994	20,796	18,597	8,256,401	2,199	10,056,120	19,893,419
1995	21,642	19,365	7,221,890	2,277	8,761,655	18,032,432
1996	22,832	20,394	8,696,889	2,438	8,749,631	19,309,000
1997	23,768	21,204	8,212,521	2,564	8,719,801	18,533,551
1998	24,638	21,793	9,802,662	2,845	10,860,553	22,533,580
1999	25,302	22,338	9,079,289	2,964	10,150,875	21,184,259
2000	26,199	23,155	9,576,025	3,044	10,829,263	22,449,754
2001	27,087	23,919	15,677,757	3,168	16,600,569	33,863,982
2002	27,453	24,279	16,153,800	3,174	15,067,161	32,795,504
			<u>\$140,782,479</u>		<u>\$ 163,084,585</u>	<u>\$ 328,034,356</u>

Fiscal Year Ended June 30,	Total Metered Customers (1)	Propane Gas Division				Total Gas Division Sales
		Residential		Commercial & Industrial		
		Customers	Revenue	Customers	Revenue	
1998	1,517	1,455	\$ 506,344	62	\$ 27,531	\$ 533,875
1999	2,153	2,074	756,421	79	116,164	872,585
2000	2,361	2,272	918,611	89	136,701	1,055,312
2001	2,641	2,533	1,442,986	108	186,651	1,629,637
2002	2,853	2,731	1,407,804	122	206,207	1,614,011
			\$ 5,032,166		\$ 673,254	\$ 5,705,420

(1) The total number of customers is at June 30.

(2) All figures are as provided by the Jackson Energy Authority.

Unaudited - See independent auditors' report.

***JACKSON ENERGY AUTHORITY  
WATER DIVISION***

**Jackson, Tennessee**

**Financial Statements and Supplementary Information**

**Years Ended June 30, 2002 and 2001**

# **JACKSON ENERGY AUTHORITY - WATER DIVISION**

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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Elizabeth A. Acree, CPA  
Dale Cavaness, CPA  
C. Mickey Hannon, CPA  
John E. Hudson, CPA  
Tony R. Jones, CPA

S. Lawson Crain, CPA  
R. Thomas Crenshaw, CPA  
Mark M. Layne, CPA  
Katherine G. Watts, CPA  
Anita C. Hamilton, CPA

Amy K. Santaniello, CPA  
Jason T. Shanes, CPA  
Tamara H. Stanfill, CPA  
Karen L. Taylor, CPA  
Trenton D. Watrous, CPA, CVA  
Roger D. Worrell, CPA

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Jackson Energy Authority  
Jackson, Tennessee

We have audited the balance sheets of Jackson Energy Authority – Water Division and Jackson Utility Division – Water System as of June 30, 2002 and June 30, 2001, respectfully, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements as of and for the period ended June 30, 2002 present only Jackson Energy Authority – Water Division and are not intended to present the combined financial position or combined results of operations of Jackson Energy Authority.

As discussed in Note 1, the financial statements as of and for the period ended June 30, 2001 present only the Jackson Utility Division – Water System and are not intended to present the financial position or results of operations of the City of Jackson, Tennessee, or of any other proprietary or similar trust fund types.

As discussed in Note 16 to the financial statements, the Authority adopted and implemented Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, during the fiscal year ended June 30, 2002.

Independent Auditors' Report  
(Continued)

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Jackson Energy Authority - Water Division and Jackson Utility Division - Water System as of June 30, 2002 and June 30, 2001, respectfully, and the results of their operations and their cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated September 6, 2002 on our consideration of Jackson Energy Authority - Water Division's and Jackson Utility Division - Water System's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information listed as supplemental information and Management's Discussion and Analysis (MD&A) in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Jackson Energy Authority - Water Division or Jackson Utility Division - Water System. The MD&A and Historical Pension Information are required by the GASB, upon which we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation, however, we did not audit the information and express no opinion on it. The other supplemental information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Crain & Company*  
CRAIN & COMPANY  
Certified Public Accountants

Jackson, Tennessee  
September 6, 2002

**Jackson Energy Authority**  
**Management's Discussion and Analysis**  
**June 30, 2002**

**Required Financial Statements**

The Financial Statements of the Jackson Energy Authority report information using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Balance Sheet includes all of the Energy Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the Energy Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the operations over the past year and can be used to analyze the results of the Energy Authority's operation. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash position resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, for what was cash used, and what was the change in cash balance during the reporting period.

This section of the annual financial report presents our analysis of the Water Division's financial performance during the Fiscal Year that ended June 30, 2002. It should be read in conjunction with the financial statements and notes that follow this section.

**Financial Highlights**

- Water Division net assets increased \$2.5 million or 6.65 % over the prior year.
- During 2002 Water Division revenues increased to \$9.3 million or 2.9 % over 2001.
- Operating expenses increased to \$7.4 million or 11.14% over fiscal year 2001.
- Capital Contributions to the Division increased to \$1.6 million or 148 percent over the prior year.

Fiscal year 2002 is the first period that the Energy Authority applied Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Energy Authority has restated prior periods for purposes of providing comparative data for the Management's Discussion and Analysis. Statement No. 34 requires recording of certain capital assets, and in accordance with the Statement, the Water Division has increased net assets as of July 1, 2000 by \$8,016,457 to record donated capital assets. The change also grew the increase in net assets by \$221,201 for the period ended June 30, 2001.

**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

**Financial Analysis**

The following table summarizes the changes in Net Assets between June 30, 2001 and 2002:

**Water Division** (in thousands of dollars):

	<u>2002</u>	<u>2001</u>	<u>% change</u>
Current and Other Assets	\$4,998	\$5,208	( 4.03%)
Capital Assets	<u>60,427</u>	<u>56,277</u>	<u>7.37%</u>
<b>Total Assets</b>	<b><u>65,425</u></b>	<b><u>61,485</u></b>	<b><u>6.41%</u></b>
Long-Term Debt	22,255	20,870	6.64%
Other Liabilities	<u>3,346</u>	<u>3,275</u>	<u>2.17%</u>
<b>Total Liabilities</b>	<b><u>25,601</u></b>	<b><u>24,145</u></b>	<b><u>6.03%</u></b>
Invested in Capital Assets, Net of Related Debt	38,943	36,436	6.88%
- Restricted	1,793	1,725	3.94%
- Unrestricted	<u>( 912)</u>	<u>( 821)</u>	<u>( 11.08%)</u>
<b>Total Net Assets</b>	<b><u>\$39,824</u></b>	<b><u>\$37,340</u></b>	<b><u>6.65%</u></b>

The table indicates that the largest portion of the Water Division's net assets (97.8%) represents its investment in capital assets (e.g. land and easements, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. Another significant portion of the Division's net assets is \$1.8 million that represents resources subject to external restrictions on how they may be used. Examples of such restrictions include assets in bond and interest sinking funds, assets in debt reserve funds, and unspent bond proceeds in a restricted construction fund.

Net assets of the Water Division increased by \$2.5 million during the current fiscal year. This increase reflects capital assets financed primarily from equity, a major component of which came from capital contributions. The Division's capital assets increased by \$4.1 million in fiscal year 2002 while net capital assets increased by \$2.5 million.

**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

The following table summarizes the variances in the Statement of Revenues, Expenses and Changes in Net Assets between fiscal years 2001 and 2002:

**Water Division** (in thousands of dollars):

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Operating Revenues	\$ 9,325	\$ 9,062	2.90%
Operating Expenses	7,433	6,688	11.14%
Net Operating Income	1,892	2,374	(20.30%)
Interest income & other	55	115	(52.17%)
Interest expense	1,092	1,096	(0.36%)
Income before Contributed Capital	855	1,393	(38.62%)
Capital Contributions	1,629	656	148.32%
Change in Net Assets	2,484	2,049	21.23%
Total Net Assets – beginning as restated	<u>37,340</u>	<u>35,291</u>	<u>5.81%</u>
Total Net Assets – ending, as restated	<u>\$39,824</u>	<u>\$37,340</u>	<u>6.65%</u>

A close examination of the Statement of Revenues, Expenses, and Changes in Net Assets reveals that the Water Division's revenues increased \$263,000 or 2.9% from fiscal year 2001 to fiscal year 2002. The increase can be attributed to a scheduled rate hike during the year coupled with an increase in connection fees to recover actual costs. Additionally, the Division grew its customer base with the acquisition of the City of Medina Water System and the Pinson Utility District Water System. With the gradual slowing of the economy and construction projects, the Water Division directed more of its concentration toward maintaining its operating system. In fiscal 2002 the Water Division also absorbed a greater share of costs that are jointly expensed by the Energy Authority. Thus, the increase in operating expense of 11.14% over fiscal year 2001 can be clearly noted.

**Jackson Energy Authority  
Management's Discussion and Analysis (Continued)  
June 30, 2002**

**Utility Plant and Debt Administration**

The Water Division's utility plant increased \$4.1 million from \$56.3 million in fiscal year 2001 to \$60.4 million in fiscal year 2002. This investment in capital assets includes land and easements, infrastructure, structures and improvements, vehicles and equipment, general office furniture & fixtures, and construction in progress.

Major capital expenditures during the fiscal year included the following:

- The Medina System Acquisition and Extension
- The Pinson System Acquisition
- Installation of new water main along Highway 18
- Extension of 12" line on new section of Ridgecrest Road

At June 30, 2002, the Water Division had long-term debt outstanding of \$22.3 million compared to \$20.9 million in the prior year. This \$22.3 million is primarily comprised of notes payable to Tennessee Municipal Bond Fund and the State Revolving Loan Fund and \$14.3 million of revenue and revenue refunding bonds. During the year, retirement of debt amounted to \$1.6 million. Additions, accretions and other adjustments amounted to \$3.0 million. A total refunding of all outstanding long-term debt is planned to occur in fiscal year 2003. This refunding is necessary to acquire outstanding debt from the City of Jackson, pursuant to Chapter No. 55 of the Private Acts, 2001.

**Currently Known Facts, Decisions or Conditions**

The Water Division plans to refinance all outstanding debt in fall of 2002. The new debt structure will level debt service and take advantage of lower interest rates.

A water rate increase of 4% is scheduled to become effective August 1, 2002. The increase coupled with debt restructuring will produce attractive debt service and debt to equity ratios for the planning horizon.

Acquisition of Pinson Utility District and City of Medina water systems added over 1,200 new customers in FY2002.

The Water and Wastewater Divisions launched WaterPro on December 1, 2001. WaterPro uses existing JEA employees to provide operation and maintenance services to other municipal water and wastewater systems. WaterPro will generate new revenue while building relationships with other systems.

## LIABILITIES AND NET ASSETS

	June 30,	
	2002	2001
<b>Liabilities</b>		
Current liabilities (payable from current assets)		
Current maturities of long-term notes payable	\$ 250,344	\$ 240,339
Current maturities of capital lease	21,842	24,138
Current maturities of long-term notes payable-Wastewater	199,992	199,992
Accounts payable	264,066	539,926
Other accrued expenses	<u>815,803</u>	<u>518,007</u>
Total current liabilities (payable from current assets)	<u>1,552,047</u>	<u>1,522,402</u>
Current liabilities (payable from restricted assets)		
Current portion of revenue bonds payable (net of unamortized discount of \$14,107 and \$15,462 in 2002 and 2001, respectively)	1,388,743	1,309,438
Accrued revenue bond interest	<u>406,176</u>	<u>443,173</u>
Total current liabilities (payable from restricted assets)	<u>1,794,919</u>	<u>1,752,611</u>
Long-term liabilities		
Notes payable (net of current maturities)	5,481,290	2,643,380
Notes payable - Wastewater (net of current maturities)	2,400,056	2,600,048
Revenue refunding bonds payable (net of unamortized discount of \$83,852 and \$97,960 in 2002 and 2001, respectively and accounting loss on refunding \$143,597 in 2002 and \$206,086 in 2001)	14,322,132	15,589,120
Customer deposits	31,037	2,835
Long-term capital leases	<u>20,095</u>	<u>34,566</u>
Total long-term liabilities	<u>22,254,610</u>	<u>20,869,949</u>
Total liabilities	<u>25,601,576</u>	<u>24,144,962</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	38,943,011	36,436,329
Restricted for debt service	1,792,817	1,724,750
Unrestricted	<u>(912,012)</u>	<u>(821,049)</u>
Total net assets	<u>39,823,816</u>	<u>37,340,030</u>
Total liabilities and net assets	<u>\$ 65,425,392</u>	<u>\$ 61,484,992</u>

See accompanying notes to financial statements.

# **JACKSON ENERGY AUTHORITY - WATER DIVISION**

## **STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

	Years Ended June 30,	
	2002	2001
Operating revenue	\$ 9,324,717	\$ 9,061,762
Operating expenses		
Operating expenses	4,473,832	4,086,826
Maintenance expenses	1,269,210	1,015,284
Provision for depreciation (less \$703,037 and \$363,261 for 2002 and 2001, respectively, allocated elsewhere)	1,391,690	1,306,750
Taxes, payroll	201,454	187,649
Tax equivalent	96,593	91,331
Total operating deductions	7,432,779	6,687,840
Net operating income	1,891,938	2,373,922
Non-operating revenue (expenses)		
Interest and other income	29,517	79,189
Bond interest, amortization and other expense	(1,091,659)	(1,095,976)
Gain (loss) on disposition of fixed assets	25,453	35,970
Total non-operating revenue (expenses)	(1,036,689)	(980,817)
Income before contributions	855,249	1,393,105
Capital contributions	1,628,537	655,804
Change in net assets	2,483,786	2,048,909
Net assets - beginning, as restated	37,340,030	35,291,121
Net assets - ending, as restated	\$ 39,823,816	\$ 37,340,030

See accompanying notes to financial statements.



**JACKSON ENERGY AUTHORITY - WATER DIVISION**  
**STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2002	2001
Cash provided by (used for) operating activities:		
Receipts from customers	\$ 9,200,212	\$ 9,044,057
Payments to suppliers	(2,508,216)	(2,160,818)
Payments to employees	(2,732,353)	(2,527,976)
Tax equivalent expense paid to City of Jackson	(96,593)	(91,331)
Net cash provided by operating activities	<u>3,863,050</u>	<u>4,263,932</u>
Cash provided by (used for) investing activities:		
Interest income	<u>29,555</u>	<u>83,987</u>
Net cash provided by investing activities	<u>29,555</u>	<u>83,987</u>
Cash provided by (used for) capital and related financing activities:		
Purchase of property, plant, and equipment	(4,498,092)	(4,608,547)
Removal cost	(141,847)	(116,562)
Proceeds from sale and salvage	39,436	96,377
Payment of capital lease obligations	(29,643)	(2,881)
Interest expense	(968,168)	(1,106,971)
Principal payments on notes payable	(439,976)	(70,515)
Bond debt expense paid	(6,309)	-
Principal payments on bonds payable	(1,324,900)	(1,254,300)
Deferred cost - GIS project	-	(7,886)
Note payable issue cost	-	(25,000)
Gross proceeds from note payable issuance	3,087,900	1,912,100
Gross proceeds from deferred credits due municipality	-	202,474
Net cash used for capital financing activities	<u>(4,281,599)</u>	<u>(4,981,711)</u>
Decrease in cash and cash equivalents	<u>(388,994)</u>	<u>(633,792)</u>
Cash and cash equivalents - beginning of year	<u>2,232,111</u>	<u>2,865,903</u>
Cash and cash equivalents - end of year	<u>\$ 1,843,117</u>	<u>\$ 2,232,111</u>
Non-cash disclosure:		
Equipment acquired in capital lease	<u>\$ 12,877</u>	<u>\$ 52,837</u>
Contributed capital assets	<u>\$ 1,628,537</u>	<u>\$ 655,804</u>

	Years Ended June 30,	
	<u>2002</u>	<u>2001</u>
Reconciliation of operating revenues to net cash provided by (used for) operating activities:		
Net operating income	\$ 1,891,938	\$ 2,373,922
Adjustments to reconcile net operating revenue to net cash provided by (used for) operating activities:		
Depreciation	2,094,727	1,670,011
Amortization	80,930	74,453
Provision for doubtful accounts (bad debt expense)	100,008	54,996
Changes in operating assets and liabilities:		
Receivables	(224,513)	(72,701)
Materials and supplies	(14,382)	33,182
Prepaid and other current assets	(115,795)	46,291
Accounts payable	(275,860)	199,300
Other accrued expenses	<u>325,997</u>	<u>(115,522)</u>
Net cash provided by operating activities	<u>\$ 3,863,050</u>	<u>\$ 4,263,932</u>

See accompanying notes to financial statements

**JACKSON ENERGY AUTHORITY – WATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2002 and 2001**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Jackson Energy Authority (the Authority) – Water Division (the Division) was formed July 1, 2001 pursuant to Chapter No. 55 of the Private Acts, 2001 cited as the Jackson Energy Authority Act and, as such, is a political subdivision of the State of Tennessee. The legislation creating the Authority amended the acts that established Jackson Utility Division. The Authority was created as a separate legal entity for the purpose of planning, acquiring, constructing, improving, furnishing, equipping, financing, owning, operating and maintaining electric, gas, water, wastewater and telecommunications utilities systems within or outside the corporate limits of the City of Jackson, Tennessee and other such utility systems as a municipal water, wastewater, gas, telecommunications or electric utility is authorized by the general laws of the State of Tennessee to own or operate. Upon creation of the Authority, the City of Jackson was authorized to transfer to the Authority all its rights, title and interest in and to all the assets operated for the City of Jackson Utility Division. The accompanying financial statements present the financial position, results of operations and cash flows of Jackson Energy Authority – Water Division as of and for the period ended June 30, 2002 and of Jackson Utility Division – Water System as of and for the period ended June 30, 2001.

**Fund Accounting**

Jackson Energy Authority – Water Division uses enterprise fund accounting. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Jackson Utility Division – Water System was an enterprise fund of the City of Jackson, Tennessee, and as such was an integral part of the City of Jackson.

Jackson Energy Authority – Water Division complies with Generally Accepted Accounting Principles (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. As allowed by GASB, Jackson Energy Authority – Water Division has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

**Basis of Accounting**

Basis of Accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Jackson Energy Authority – Water Division uses and Jackson Utility Division – Water System used the accrual basis of accounting. Accrual basis accounting requires the recognition of revenues when earned and the recognition of expenses when incurred.

**Materials and Supplies Valuation**

Materials and supplies are valued at the lower of cost (first-in, first-out) or market value.

# **JACKSON ENERGY AUTHORITY – WATER DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

June 30, 2002 and 2001

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Utility Plant and Depreciation**

Utility plant records have been maintained on a cost basis since June 19, 1959. Prior to that date, the utility plant was stated at amounts established by the City of Jackson, Tennessee.

Depreciation is calculated by the straight-line method at rates adequate to allocate the cost of applicable assets over their expected useful lives, and includes the amortization of assets accounted for as capital leases.

All acquisitions of property and equipment and all expenditures for repairs, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost.

#### **Income Taxes**

Jackson Energy Authority was created by state law as a governmental authority and is therefore exempt from federal and state income taxes

#### **Bond Discount and Issue Costs**

The Division has capitalized bond discounts and issue costs and is amortizing them over the life of the bond issues.

#### **Investments**

The Public Act creating the Authority authorizes the following investments:

- (1) Direct obligations of the United States government or any of its agencies;
- (2) Obligations guaranteed as a principal and interest by the United States government or any of its agencies;
- (3) Certificates of deposit and other evidences of deposit at state and federal chartered banks, savings and loan institutions or savings banks deposited and collateralized;
- (4) Repurchase agreements entered into with the United States or its agencies or with any bank, broker-dealer or other such entity so long as the obligation of the obligated party is secured by a perfected pledge of full faith and credit obligations of the United States or its agencies;
- (5) Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified time period with entities rated in one (1) of the two (2) highest rating categories of a nationally recognized rating agency;
- (6) The local government investment pool;
- (7) Direct general obligations of the state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers and rated in either of the two (2) highest rating categories by a nationally recognized rating agency of such obligations; or
- (8) Obligations of any state of the United States or a political subdivision or instrumentality thereof, secured solely by revenues received by, or on behalf of, the state or political subdivision or instrumentality thereof irrevocably pledged to the payment of the principal and interest of such obligations, rated in the two (2) highest rating categories by a nationally recognized rating agency of such obligations.

# **JACKSON ENERGY AUTHORITY – WATER DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Cash and Cash Equivalents**

The Division considers all highly liquid investments (including restricted assets) with a maturity of three months or less from the date acquired to be a cash equivalent. Cash investments are highly liquid investments but with a maturity of more than three months from the date acquired.

#### **Interest Costs**

The Division expenses interest when the liability is incurred. Interest cost associated with fixed assets is capitalized when material. Other interest costs are expensed.

#### **Compensated Absences**

The Division grants annual leave and sick leave based on longevity of service. Employees may accumulate up to 310 hours of annual leave, which is fully vested. Employees are not vested in sick leave until retirement at which time 30 percent of accumulated sick leave is paid to the employee. Starting January 1, 1999, the remaining 70 percent of the employee's accumulated sick leave is credited to the employee's number of years of service. The amount of such additional credit shall be determined by dividing such sick leave hours by 2,080 hours. In no event may such additional credit exceed one additional year of service. A liability of \$641,250 and \$475,907 has been accrued for the years ended June 30, 2002 and 2001, respectively, for future compensated absences earned to date.

#### **Reclassifications**

Certain reclassifications have been made to the financial statements as of June 30, 2001, to conform with the June 30, 2002, presentation. Such reclassifications have had no effect on the net income for the year ended June 30, 2001, as previously reported.

#### **Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **NOTE 2 – INSURANCE COVERAGE**

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except for catastrophic coverage for fleet vehicles left on the premises overnight, the Division retains the risk of loss to the extent of property damage to such vehicles. The Division carries commercial insurance on all vehicles to mitigate the risk of loss associated with uninsured motorist and liability claims. The division also carries commercial insurance on company owned vehicles driven by senior administration to mitigate the risk of loss associated with property damage as well as liability claims and uninsured motorists. There were no significant outstanding claims liabilities related to vehicle property damage at June 30, 2002 and 2001. The Division carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

# JACKSON ENERGY AUTHORITY – WATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 2 – INSURANCE COVERAGE (Continued)

Insurer	Coverage	Expiration Date	Amount of Policy
Affiliated FM Insurance Company	Fire and extended coverage – 90 percent co-insurance		
	Property		\$ 18,432,003
	Contents		1,448,912
	Contractor's equipment		373,723
	Communication equip.		396,359
	Flood and earthquake		5,000,000
	Boiler and machinery		10,000,000
	Garaged vehicles		2,349,775
	Transit		100,000
	Accounts receivable		250,000
	Valuable papers		250,000
	Expediting expense		100,000
	Land and water cleanup		
100,000	Cost of construction		1,000,000
	Newly acquired property		1,000,000
	Extra expense	07-01-02	500,000
Great Northern Company	General automobile liability, bodily injury and property damage	07-01-02	1,000,000
Distributors Insurance Company	Commercial general liability (for claims over \$100,000)		
	individual		100,000
	aggregate	07-01-02	300,000
Lexington Insurance Company	Excess general liability (for claims over \$100,000 and \$300,000) individual		900,000
	aggregate	07-01-02	2,700,000
Westchester Fire	Umbrella general liability	07-01-02	5,000,000
Distributors Insurance Company	Worker's Compensation	07-01-02	1,000,000

# **JACKSON ENERGY AUTHORITY – WATER DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

June 30, 2002 and 2001

### **NOTE 2 – INSURANCE COVERAGE (Continued)**

<u>Insurer</u>	<u>Coverage</u>	<u>Expiration Date</u>	<u>Amount of Policy</u>
Zurich American Insurance Company	Pension and benefit fiduciary responsibility	07-01-02	3,000,000
Zurich American Insurance Company	Public officials' and employees' liability	07-01-02	5,000,000
Travelers Insurance Company	Public employee dishonesty	07-01-02	500,000

A Voluntary Employee Benefit Association trust provides medical care and dental insurance coverage for its employees. Based on past experience, the Division pays non-refundable premiums to the trust to be used to pay medical care and dental benefit claims for employees. Claims in excess of \$100,000 are covered by reinsurance. Principal Financial Group is acting as administrator.

### **NOTE 3 – RETIREMENT PLAN**

The Jackson Energy Authority has a retirement plan covering substantially all of its employees. The retirement plan is a single-employer defined benefit pension plan and is administered by the Jackson Energy Authority Retirement Committee. Aetna Life Insurance Company is the disbursing agent for benefits.

Each employee will enter the plan on the first of the month following the anniversary of his/her hire date and attainment of age 21.

The Plan provides for normal retirement at age 65, early retirement after attainment of age 55 and completion of 5 years of vesting service, delayed retirement beyond normal retirement age and disability retirement upon total and permanent disability after completion of 5 years of vesting service. Upon the death of the participant, survivor benefits are provided depending on the retirement benefit chosen. Article 8 of the Plan document assigns the authority to establish and amend benefit provisions to the Jackson Energy Authority Board of Directors. The Plan issues a stand-alone financial report, which can be obtained from Aetna by calling 1-800-273-6197 and First Tennessee Bank at 1-901-681-2536.

The contribution requirements of plan members and Jackson Energy Authority are established and may be amended by the Jackson Energy Authority Board of Directors as granted by the plan document. Jackson Energy Authority contributes 8.28 percent of annual employee earnings on behalf of plan members. These employer contributions are treated as if they were made by the participant. Jackson Energy Authority is required to contribute an actuarially determined rate. The required actuarially determined contribution rates were 17.65 percent of the projected payroll payable at the end of each month for the period January 1, 2002 to December 31, 2002 and 16.49 percent of the projected payroll payable at the end of each month for the period January 1, 2001 to December 31, 2001.

# JACKSON ENERGY AUTHORITY – WATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 3 – RETIREMENT PLAN (Continued)

For the years' ended June 30, 2002 and 2001, Jackson Energy Authority's annual pension cost of \$2,050,871 and \$1,674,417, respectively, was equal to the Authority's required and actual contributions. The required contributions were determined as part of the January 1, 2002 and 2001 actuarial valuations "attained age aggregate cost" funding method. The actuarial assumptions included (a) a 7.5 percent investment rate of return, (b) a projected salary increase of 4.5 percent per year, compounded annually, (c) a 3 percent per annum cost-of-living adjustment and (d) a rate of retirement to extend from ages fifty five to sixty five. The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

Three-Year Trend Information for Jackson Energy Authority			
Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2000	\$ 1,703,035	100%	\$ -
June 30, 2001	\$ 1,674,417	100%	\$ -
June 30, 2002	\$ 2,050,871	100%	\$ -

The total retirement costs for the Water Division for the years ended June 30, 2002 and 2001 were \$459,509 and \$358,569, respectively.

### NOTE 4 – BONDS PAYABLE

The following is a summary of bond transactions for the years ended June 30, 2002 and 2001:

	Years Ended June 30,	
	2002	2001
Bonds payable – beginning of year	\$ 17,218,065	\$ 18,416,499
Add: Capital appreciation accretion on Series 1998B Bonds	59,266	55,866
Less: Payments on 1993 Bond issue	(3,400)	(3,300)
Payments on 1988A Bond issue	(180,000)	(175,000)
Payments on 1998B Bond issue	(33,000)	(30,250)
Payments on 1995 Bond issue	(918,500)	(860,750)
Payments on 1996 Bond issue	(190,000)	(185,000)
Bonds payable – end of year	\$ 15,952,431	\$ 17,218,065



**JACKSON ENERGY AUTHORITY – WATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

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**NOTE 4 – BONDS PAYABLE (Continued)**

Bonds payable at June 30, 2002 consist of the following:

\$323,900 Water Division Revenue Refunding Bonds, Series 1993 with principal payable annually on January 1, and interest payable semi-annually on January 1, and July 1, at rates ranging from 4.6250% to 5.250% per annum.

\$3,426,500 taxable Water Division Revenue Refunding Bonds, Series 1995, with principal payable annually on January 1, and interest payable semi-annually on January 1, and July 1, at rates ranging from 6.15% to 6.45% per annum.

\$4,280,000 Water Division Revenue Bonds, Series 1996, with principal payable annually on January 1, and interest payable semi-annually on January 1, and July 1, at rates ranging from 4.30% to 5.25% per annum.

\$4,645,000 Water Division Revenue Bonds, Series 1998A, with principal payable annually beginning July 1, 2002, and interest payable semi-annually on January 1, and July 1, at rates ranging from 4.00% to 4.75% per annum.

\$3,277,031 Water Division Revenue Refunding Bonds, Series 1998B, with principal payable semi-annually on January 1, and July 1, and an additional principal payment of capital appreciation due July 1, 2012 and interest payable semi-annually at rates ranging from 6.00% to 6.30% per annum.

In prior years, the Division defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and the liability for the defeased bonds are not included in the Division's financial statements. On June 30, 2002, \$18,093,500 of bonds outstanding are considered defeased.

**JACKSON ENERGY AUTHORITY - WATER DIVISION****NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001****NOTE 4 – BONDS PAYABLE (Continued)**

The annual debt service requirements for bond retirements are presented below:

Years Ended June 30,	Series 1998A Bonds		Series 1998B Bonds		Series 1996 Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 190,000	\$ 211,825	\$ 33,000	\$ 145,107	\$ 200,000	\$ 211,720
2004	195,000	203,884	35,750	143,093	210,000	202,595
2005	205,000	195,584	38,500	140,913	220,000	192,810
2006	215,000	186,815	459,250	132,106	230,000	182,345
2007	220,000	177,625	552,750	102,391	240,000	171,180
2008	230,000	168,005	591,250	66,875	250,000	159,295
2009	240,000	157,840	618,750	29,279	265,000	146,545
2010	250,000	147,057	-	-	275,000	133,045
2011	265,000	135,466	-	-	290,000	118,775
2012	275,000	123,044	947,829	1,073,645	305,000	103,374
2013	290,000	109,762	-	-	325,000	86,836
2014	305,000	95,402	-	-	340,000	69,380
2015	320,000	80,090	-	-	360,000	50,825
2016	335,000	63,875	-	-	375,000	31,164
2017	350,000	46,750	-	-	395,000	10,567
2018	370,000	28,750	-	-	-	-
2019	390,000	9,750	-	-	-	-
	<u>\$ 4,645,000</u>	<u>\$ 2,141,524</u>	<u>\$ 3,277,079</u>	<u>\$ 1,833,409</u>	<u>\$ 4,280,000</u>	<u>\$ 1,870,456</u>

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Series 1995 Bonds		Series 1993 Bonds		Total Debt
Principal	Interest	Principal	Interest	Service
\$ 976,250	\$ 203,290	\$ 3,600	\$ 16,572	\$ 2,191,364
1,039,500	140,997	3,800	16,401	2,191,020
781,000	73,345	9,500	16,219	1,872,871
629,750	20,309	29,200	15,744	2,100,519
-	-	30,700	14,284	1,508,930
-	-	32,300	12,749	1,510,474
-	-	48,300	11,094	1,516,808
-	-	64,700	8,618	878,420
-	-	68,100	5,302	882,643
-	-	33,700	1,727	2,863,319
-	-	-	-	811,598
-	-	-	-	809,782
-	-	-	-	810,915
-	-	-	-	805,039
-	-	-	-	802,317
-	-	-	-	398,750
-	-	-	-	399,750
<u>\$ 3,426,500</u>	<u>\$ 437,941</u>	<u>\$ 323,900</u>	<u>\$ 118,710</u>	<u>\$ 22,354,519</u>

# JACKSON ENERGY AUTHORITY – WATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 5 – WATER RATES IN FORCE AS OF JUNE 30, 2002:

Monthly Residential Rates								
Thousands of Gallons								
Minimum Charge	0-2	Next 5	Next 23	Next 20	Over 50			
Water rates per 1,000 gals.								
Urban RW-2	See	\$ 3.06	\$ 2.47	\$ 2.16	\$ 1.95	\$ 1.34		
Rural RW-3	Below	4.79	3.47	2.54	2.14	1.41		
Minimum Monthly Bill								
Meter Size								
5/8"	1"	1 1/2"	2"					
Urban	\$ 6.11	\$12.20	\$ 20.35	\$40.68				
Rural	9.57	18.32	30.50	61.05				
Monthly General Service Rates								
Thousands of Gallons								
Minimum Charge	0-3	Next 12	Next 35	Next 150	Next 300	Next 500	Next 1,000	
Water rates per 1,000 gals.								
Urban CW-2	See	\$ 3.06	\$ 2.66	\$ 2.06	\$ 1.64	\$ 1.32	\$ 1.14	\$ .83
Rural	Below	4.39	3.47	2.25	1.93	1.64	1.41	By Contract
Minimum Monthly Bill								
Meter Size								
5/8"	1"	1 1/2"	2"	3"	4"	6"	8"	
Urban	\$ 9.18	\$ 15.27	\$ 25.43	\$ 50.84	\$101.68	\$152.57	\$305.12	\$ 508.54
Rural	13.18	20.35	30.50	61.05	122.03	203.42	406.82	610.22

The Water Division served 31,890 and 30,145 water customers as of June 30, 2002 and 2001, respectively. The Division furnishes the City sufficient water for fire hydrants.

# JACKSON ENERGY AUTHORITY – WATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 6 – NOTES PAYABLE

The notes payable are summarized as follows:

	<u>June 30, 2002</u>		<u>June 30, 2001</u>	
	<u>Due Within One Year</u>	<u>Due After One Year</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
Note payable, State of Tennessee, with monthly payments through February 2010 (a)	\$ 38,579	\$ 309,371	\$ 36,574	\$ 348,129
Note payable, State of Tennessee Revolving Fund (b)	17,268	350,440	17,268	367,175
Note Payable, Tennessee Municipal Bond Fund (c)	172,000	4,664,000	164,000	1,748,100
Note Payable, Humboldt Utilities (d)	<u>22,497</u>	<u>157,479</u>	<u>22,497</u>	<u>179,976</u>
	<u>\$ 250,344</u>	<u>\$ 5,481,290</u>	<u>\$ 240,339</u>	<u>\$2,643,380</u>

(a) As of June 30, 2002, the note payable, State of Tennessee is expected to mature as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 38,580	\$ 8,522
2004	40,250	6,632
2005	42,513	4,582
2006	45,375	2,345
2007	47,024	222
2008-2010	<u>134,208</u>	<u>(11,746)</u>
	<u>\$ 347,950</u>	<u>\$ 10,557</u>

The note payable is secured by revenues of the Division and state shared taxes and principal is payable monthly plus interest at variable rates.

# JACKSON ENERGY AUTHORITY – WATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 6 – NOTES PAYABLE (Continued)

- (b) As of June 30, 2002, the note payable, State of Tennessee Revolving Fund is expected to mature as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 17,268	\$ 11,340
2004	17,820	10,788
2005	18,396	10,212
2006	18,984	9,624
2007	19,584	9,024
2008-2012	107,724	35,304
2013-2017	126,072	16,956
2018-2019	41,860	1,056
	<u>\$ 367,708</u>	<u>\$ 104,304</u>

The note payable is secured by City of Jackson sales taxes and principal is payable monthly plus interest at 3.15% per annum.

- (c) The balance of the note payable – Tennessee Municipal Bond Fund at June 30, 2002 represents a draw against a revolving loan with aggregate principal not to exceed \$5,000,000. The loan is being used for the improvement, extension, construction, and equipping of the water and sewer Divisions of the Municipality. The note payable has a variable interest rate. The balance of the note payable – Tennessee Municipal Bond Fund at June 30, 2002 is expected to mature as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>	<u>Interest</u>
2003	\$ 172,000	\$ 241,800
2004	181,000	233,200
2005	190,000	224,150
2006	199,000	214,650
2007	209,000	204,700
2008-2012	1,212,000	856,050
2013-2017	1,547,000	521,050
2018-2020	1,126,000	114,450
	<u>\$ 4,836,000</u>	<u>\$ 2,610,050</u>

- (d) The balance of the note payable due Humboldt Utilities represents the acquisition of water customers from Humboldt Utilities in north Madison County, Tennessee. The note is non-interest bearing and is payable in annual installments of \$22,497 and is expected to mature as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2003	\$ 22,497
2004	22,497
2005	22,497
2006	22,497
2007	22,497
2008-2010	67,491
	<u>\$ 179,976</u>

- (e) The balance of the note payable due to Wastewater Division represents the amount owed for intercompany payables due at June 30, 2002. The Water Division makes monthly payments of \$16,666 and the Wastewater Division does not charge the Water Division interest. At June 30, 2002, there are 152 payments left on this agreement.

**JACKSON ENERGY AUTHORITY – WATER DIVISION****NOTES TO FINANCIAL STATEMENTS**

(Continued)

June 30, 2002 and 2001**NOTE 7 – WATER PLANT IN SERVICE AND EQUIPMENT  
ADDITIONS AND RETIREMENTS**

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Reclassifi- cations and Retirements</u>	<u>Balance June 30, 2002</u>
Land and land rights	\$ 372,789	\$ 1,800	\$ -	\$ 374,589
Structures and improvements	9,777,749	1,136,430	(22,000)	10,892,179
Mains, services and meters	50,121,306	3,137,025	(392,386)	52,865,945
Reservoirs and wells	3,529,822	472,202	-	4,002,024
Pumping, distribution and treatment	2,827,543	26,560	-	2,854,103
Transportation equipment	911,992	129,554	(119,531)	922,015
Communication equipment	607,676	275,785	-	883,461
Office furniture and equipment	1,635,397	125,004	(9,521)	1,750,880
Tools and miscellaneous equipment	824,329	139,764	(20,434)	943,659
Acquisition adjustment	<u>209,972</u>	<u>-</u>	<u>(22,497)</u>	<u>187,475</u>
Total	<u>\$ 70,818,575</u>	<u>\$ 5,444,124</u>	<u>\$ (586,369)</u>	<u>\$ 75,676,330</u>

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Reclassifi- cations and Retirements</u>	<u>Balance June 30, 2001</u>
Land and land rights	\$ 354,103	\$ 18,686	\$ -	\$ 372,789
Structures and improvements	9,534,493	260,450	(17,194)	9,777,749
Mains, services and meters	47,415,489	3,042,831	(337,014)	50,121,306
Reservoirs and wells	3,292,607	237,215	-	3,529,822
Pumping, distribution and treatment	2,731,424	96,119	-	2,827,543
Transportation equipment	814,917	145,604	(48,529)	911,992
Communication equipment	554,574	53,102	-	607,676
Office furniture and equipment	1,490,156	154,683	(9,442)	1,635,397
Tools and miscellaneous equipment	739,137	173,282	(88,090)	824,329
Acquisition adjustment	<u>-</u>	<u>224,970</u>	<u>(14,998)</u>	<u>209,972</u>
Total	<u>\$ 66,926,900</u>	<u>\$ 4,406,942</u>	<u>\$ (515,267)</u>	<u>\$ 70,818,575</u>

# **JACKSON ENERGY AUTHORITY – WATER DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

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### **NOTE 8 – UNCERTAINTIES**

The Authority is a defendant in several suits, which are being defended by the Authority's public liability insurer. There is a \$100,000 deductible amount on this insurance. Therefore, any damages awarded under these suits would be the Authority's responsibility up to \$100,000. Amounts in excess of \$100,000 would be covered by insurance. Also, workers' compensation suits are being defended by the compensation carrier for the Authority.

### **NOTE 9 – CASH AND CASH EQUIVALENTS AND CASH INVESTMENTS**

At June 30, 2002, cash and cash equivalents and cash investments under the classifications of current and restricted assets consisted of the following:

<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Date Acquired</u>	<u>Maturity Date</u>	<u>Market Value</u>
<b>Current assets</b>					
Cash and cash equivalents					
Petty cash	\$ 300	n/a	n/a	n/a	\$ 300
General cash - ASB	137,137	n/a	n/a	n/a	137,137
General cash – UPB	51,265	n/a	n/a	n/a	51,266
Operating fund - FB	<u>350,395</u>	*	n/a	n/a	350,395
Total	<u>\$ 539,097</u>				
<b>Restricted assets</b>					
Cash and cash equivalents					
Debt service account	<u>\$ 1,304,020</u>	n/a	n/a	n/a	1,304,020
Total	<u>1,304,020</u>				
<b>Cash investments</b>					
Bond escrow account	<u>894,973</u>	**	10/19/88	07/01/12	894,973
Total restricted assets	<u>\$ 2,198,993</u>				



# JACKSON ENERGY AUTHORITY – WATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 9 – CASH AND CASH EQUIVALENTS AND CASH INVESTMENTS (Continued)

At June 30, 2001, cash and cash equivalents and cash investments under the classifications of current and restricted assets consisted of the following:

Description	Amount	Interest Rate	Date Acquired	Maturity Date	Market Value
<b>Current assets</b>					
Cash and cash equivalents					
Petty cash	\$ 300	n/a	n/a	n/a	\$ 300
General cash - ASB	317,200	n/a	n/a	n/a	317,200
Operating fund - FB	<u>641,661</u>	*	n/a	n/a	641,661
Total	<u>\$ 959,161</u>				
<b>Restricted assets</b>					
Cash and cash equivalents					
Debt service account	<u>\$ 1,272,950</u>	n/a	n/a	n/a	1,272,950
Total	<u>1,272,950</u>				
Cash investments					
Bond escrow account	<u>894,973</u>	**	10/19/88	07/01/12	894,973
Total restricted assets	<u>\$ 2,167,923</u>				

Deposits in excess of amounts insured by the Federal Deposit Insurance Corporation are insured by securities held in the Tennessee Collateral Pool. These deposits are category 1 – insured or collateralized with securities held by the entity or by its agent in the entity's name.

\* This is the Authority's general revenue checking account for 2002 and 2001. Each Division reports its share of the account. Interest is earned on the daily revenue fund balance. The interest rate is 103.2 percent of the Federal Reserve Open Market Committee rate as published each Tuesday. This rate applies for one week and is used to calculate the interest on a daily basis. Interest is added to the account monthly. A service fee, based on actual cost, not to exceed \$1,200, is paid each month by the Authority for this banking service.

\*\* The bond escrow account represents excess bond funds. This excess balance is restricted by the Revenue Refunding Bonds, Series 1998B, to secure the 1998B Capital Appreciation Bonds which mature July 1, 2012. These funds will be available for debt service requirements on July 1, 2012. The accreted value of these bonds are included in the Division's bonds payable.

# **JACKSON ENERGY AUTHORITY – WATER DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**June 30, 2002 and 2001**

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### **NOTE 10 – DEFERRED COMPENSATION PLAN**

The Division offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Division employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

IRC Section 457 was changed August 20, 1996, to require that all assets and liabilities be held in trust for the exclusive benefit of participants and their beneficiaries. The Division's plan was amended to adopt the required changes. The changes were effective January 1, 1997.

### **NOTE 11 – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

In addition to providing pension benefits, the Division provides certain health care, dental and life insurance benefits for retired employees. Substantially all of the Division's employees may become eligible for those benefits if they reach age 55 while working for the Division. The health care and dental benefits are provided by a self-insurance trust plan with an insurance company acting as administrator. Retired employees over the age of sixty-five are covered by a "Medicare carve-out" plan which provides the same benefits, except Medicare is the primary payer. The Plan provides for reinsurance for claims in excess of \$100,000. Not all of the retired employees are eligible for dental benefits.

The cost of health care and dental benefits is \$519,730 and \$435,917 for the years ended June 30, 2002 and 2001, respectively. The cost of providing the health care and dental benefits for twenty-seven and twenty-eight retirees for the years ended June 30, 2002 and 2001, respectively, is not separable from the cost of providing the health care and dental benefits for seventy-eight and seventy-nine active employees for the years ended June 30, 2002 and 2001, respectively. The cost of the life insurance benefits is \$18,143 and \$29,677 for the years ended June 30, 2002 and 2001, respectively. The cost of providing the life insurance benefits for twenty-seven and twenty-eight retirees for the years ended June 30, 2002 and 2001, respectively, is not separable from the cost of providing life insurance benefits for seventy-eight and seventy-nine employees for the years ended June 30, 2002 and 2001, respectively.

### **NOTE 12 – GEOGRAPHIC OPERATIONS**

The Division's operations are primarily within the City of Jackson, Madison County and adjoining areas, and it derives its revenue primarily from user charges to customers within these areas.

# JACKSON ENERGY AUTHORITY – WATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 13 – CAPITAL LEASES

The Division leases various office equipment with lease terms through June 2005. The capital leases have been recorded as an obligation in the accompanying financial statements at the present value of future minimum lease payments discounted at various interest rates.

Obligations under capital leases consist of the following at June 30,

	<u>2002</u>	<u>2001</u>
Total	\$ 41,937	\$ 58,704
Less: Current portion	<u>21,842</u>	<u>24,138</u>
Long-term portion	<u>\$ 20,095</u>	<u>\$ 34,566</u>

The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments are as follows for the years ended June 30,

2003	\$ 23,070
2004	20,075
2005	849
2006	-
Thereafter	<u>-</u>
Total future minimum lease payments	43,994
Less: amount representing interest	<u>2,057</u>
Present value of future minimum lease payments	<u>\$ 41,937</u>

### NOTE 14 – ACCOUNTING CHANGE

As of July 1, 2000, the Authority adopted Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 requires recording of certain capital assets and in accordance with the Statement, the Water Division has increased net assets as of July 1, 2000 by \$8,016,457 to record donated capital assets. The change also increased the increase in net assets by \$221,201 for the period ended June 30, 2001.

**JACKSON ENERGY AUTHORITY – WATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002, and 2001**

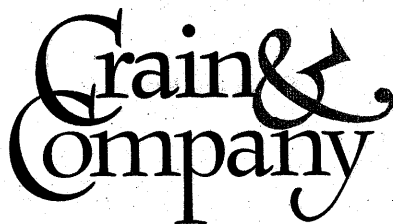
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**NOTE 15 – INTERDEPARTMENTAL RENT EXPENSE**

For 2002 and 2001, the Division paid rent to the Electric Division of \$4,722 and \$5,162, respectively, for the use of the mainframe computer, larger copier and miscellaneous equipment.

**NOTE 16 – NOTE PAYABLE – WASTEWATER DIVISION**

One note payable – Wastewater Division consists of \$2,600,048 payable in monthly installments of \$16,666. No interest is being charged.



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Elizabeth A. Acree, CPA  
Dale Cavaness, CPA  
C. Mickey Hannon, CPA  
John E. Hudson, CPA  
Tony R. Jones, CPA

S. Lawson Crain, CPA  
R. Thomas Crenshaw, CPA  
Mark M. Layne, CPA  
Katherine G. Watts, CPA  
Anita C. Hamilton, CPA

Amy K. Santaniello, CPA  
Jason T. Shanes, CPA  
Tamara H. Stanfill, CPA  
Karen L. Taylor, CPA  
Trenton D. Watrous, CPA, CVA  
Roger D. Worrell, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Jackson Energy Authority  
Jackson, Tennessee

We have audited the financial statements of the Jackson Energy Authority - Water Division and Jackson Utility Division - Water System as of and for the years ended June 30, 2002 and 2001, respectfully, and have issued our report thereon dated September 6, 2002. We conducted our audits in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Jackson Energy Authority - Water Division's and Jackson Utility Division - Water System's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

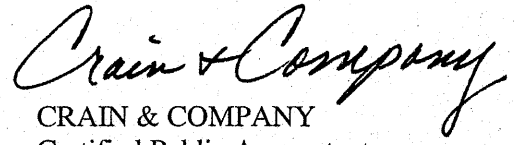
In planning and performing our audits, we considered Jackson Energy Authority - Water Division's and Jackson Utility Division - Water System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

26 SECURITY DRIVE • JACKSON, TENNESSEE 38305

PHONE: 731.668.7070 • FAX: 731.668.1218 • TOLL FREE: 877.892.7070 • [www.craincpa.com](http://www.craincpa.com) • E-MAIL: [craininfo@craincpa.com](mailto:craininfo@craincpa.com)

Independent Auditors' Report on Compliance and on  
Internal Control over Financial Reporting Based on an  
Audit of Financial Statements Performed in Accordance  
With *Government Auditing Standards*  
(Continued)

This report is intended for the information of the Board of Directors, management and government regulatory and granting agencies, and it is not intended to be and should not be used by anyone other than those specified parties.

  
CRAIN & COMPANY  
Certified Public Accountants

Jackson, Tennessee  
September 6, 2002

**JACKSON ENERGY AUTHORITY – WATER DIVISION**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2002**

<u>State</u> <u>Grantor Agency</u>	<u>Grant</u> <u>Amount</u>	<u>State</u> <u>Contract #</u>	<u>Receivable</u> <u>Balance</u> <u>July 01, 2001</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Receivable</u> <u>Balance</u> <u>June 30, 2002</u>
Tennessee Department of Economic & Community Development	\$ 326,196	Z02-008480-00	\$ -	\$ 213,889	\$ 213,889	\$ -
Tennessee Department of Economic & Community Development	\$ 236,422	Z99-091768-00	\$ -	\$ 10,942	\$ 10,942	\$ -
	\$ 562,618		\$ -	\$ 224,831	\$ 224,831	\$ -

See accountants' notes to the schedule of expenditures of state financial assistance.

**JACKSON ENERGY AUTHORITY – WATER DIVISION**

**NOTE TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

**(Continued)**

**June 30, 2002, and 2001**

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**BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of State Financial Assistance summarizes the expenditures of Jackson Energy Authority – Water Division under programs of the state government for the year ended June 30, 2002. The Schedule is presented using the accrual basis of accounting.



## **SUPPLEMENTARY INFORMATION**

**JACKSON ENERGY AUTHORITY - WATER DIVISION****HISTORICAL PENSION INFORMATION****(Continued)****June 30, 2002 and 2001**

	1993	1994	1995	1996
(1) Pension benefit obligation	\$ 32,450,851	\$ 35,287,736	\$ 38,518,851	\$ 42,199,778
(2) Net assets available for benefits	\$ 20,108,384	\$ 21,992,047	\$ 23,796,754	\$ 26,644,006
(3) Percent - (2) divided by (1)	61.97%	62.32%	61.77%	63.14%
(4) Unfunded pension benefit obligation (1) minus (2)	\$ 12,342,467	\$ 13,295,689	\$ 14,722,097	\$ 15,555,772
(5) Annual covered payroll	\$ 7,596,998	\$ 7,878,863	\$ 7,977,673	\$ 8,753,084
(6) Percent - (4) divided by (5)	162.47%	168.75%	184.54%	177.74%

An actuarial valuation is performed annually. The information presented above is taken from those reports and is supplementary information required by the Governmental Accounting Standards Board.

1997	1998	1999	2000	2001	2002
\$ 44,897,959	\$ 48,868,864	\$ 54,727,249	\$ 58,727,249	\$ 64,995,256	\$ 71,340,653
\$ 29,467,137	\$ 33,343,880	\$ 38,092,794	\$ 42,543,267	\$ 45,348,868	\$ 47,914,966
65.63%	68.23%	69.60%	72.44%	69.77%	67.16%
\$ 15,430,822	\$ 15,524,984	\$ 16,634,455	\$ 16,183,982	\$ 19,646,388	\$ 23,425,687
\$ 9,061,874	\$ 9,949,845	\$ 10,744,593	\$ 11,117,696	\$ 11,302,548	\$ 12,876,865
170.28%	156.03%	154.82%	145.57%	173.82%	181.92%

- a. The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial finding method, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.
- b. Looking at the pension benefit obligation, or the unfunded portion of the pension benefit obligation, in isolation can be misleading.

Expressing net assets available for benefits as a percentage of the pension benefit obligation (line 3) provides one indication of the extent to which a plan is funded. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Expressing the unfunded pension benefit obligation as a percentage of the annual covered payroll (line 6) approximately adjusts for the effects of inflation and aids analysis of funding progress. Generally, the smaller the unfunded percentage, the stronger the plan.

**JACKSON ENERGY AUTHORITY - WATER DIVISION**  
**OPERATING EXPENSES**

	Years Ended June 30,	
	2002	2001
Operating expenses		
Source of supply		
Supervision and engineering	\$ 13,985	\$ 8,102
Labor	46,330	25,948
Miscellaneous	320,615	343,689
Total source of supply	<u>380,930</u>	<u>377,739</u>
Pumping		
Supervision and engineering	11,119	13,591
Labor	17,924	31,841
Purchased power	286,868	315,577
Miscellaneous	3,525	4,931
Total pumping	<u>319,436</u>	<u>365,940</u>
Treatment and disposal		
Supervision and engineering	7,310	8,092
Labor	229,037	258,171
Chemicals	75,598	69,994
Miscellaneous	84,449	86,866
Total treatment and disposal	<u>396,394</u>	<u>423,123</u>
Transmission and distribution		
Supervision and engineering	182,741	186,818
Storage facilities expense	42,815	47,089
Line expense	261,417	235,978
Meter expense	112,177	65,540
Miscellaneous	229,296	246,645
Customer installation	108,605	84,662
Total transmission and distribution	<u>937,051</u>	<u>866,732</u>
Customer accounts		
Supervision	14,719	12,625
Meter reading	103,701	93,045
Billing and collection	321,086	257,822
Uncollectible accounts	100,008	54,996
Data processing	151,800	141,789
Assistance expense	126,242	93,500
Total customer accounts	<u>817,556</u>	<u>653,777</u>
Administrative and general		
Salaries	446,719	397,845
Office supplies and expense	161,175	153,171
Professional service	37,723	54,573
Insurance	115,542	92,093
Employees' benefits	823,085	668,721
Miscellaneous	33,499	27,950
Rent	4,722	5,162
Total administrative and general	<u>1,622,465</u>	<u>1,399,515</u>
Total operating expenses	<u>\$ 4,473,832</u>	<u>\$ 4,086,826</u>

See independent auditors' report.

**JACKSON ENERGY AUTHORITY - WATER DIVISION**  
**MAINTENANCE EXPENSES**

	Years Ended June 30,	
	2002	2001
Maintenance expenses		
Source of supply		
Supervision and engineering	\$ 6,879	\$ 8,093
Wells and springs	97,207	97,078
	<u>104,086</u>	<u>105,171</u>
Pumping		
Supervision and engineering	10,698	13,118
Structures and improvements	-	0
Pumping equipment	30,209	29,523
	<u>40,907</u>	<u>42,641</u>
Treatment and disposal		
Supervision and engineering	6,879	8,136
Structures and improvements	111,538	46,972
Treatment and disposal equipment	101,854	119,601
	<u>220,271</u>	<u>174,709</u>
Transmission and distribution		
Supervision and engineering	18,044	14,587
Structures and improvements	50	
Distribution reservoirs and standpipes	210,406	20,621
Mains and services	473,123	432,138
Services meters and hydrants	145,288	162,927
	<u>846,911</u>	<u>630,273</u>
Administrative and general	<u>57,035</u>	<u>62,490</u>
Total maintenance expenses	<u>\$ 1,269,210</u>	<u>\$ 1,015,284</u>

See independent auditors' report.

**JACKSON ENERGY AUTHORITY - WATER DIVISION**  
**HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE**  
(Unaudited)  
Years Ended June 30,

**HISTORICAL**

Description	1998	1999	2000	2001	2002
Operating revenues (1)	\$ 8,208,406	\$ 8,589,462	\$ 9,777,340	\$ 9,496,365	\$ 10,953,254
Interest & other income	<u>113,762</u>	<u>283,118</u>	<u>193,708</u>	<u>113,240</u>	<u>50,080</u>
Total revenue	<u>8,322,168</u>	<u>8,872,580</u>	<u>9,971,048</u>	<u>9,609,605</u>	<u>11,003,334</u>
Operating expenses	5,878,798	5,970,710	6,258,217	6,687,843	7,432,779
Less depreciation	1,036,000	1,054,095	1,190,296	1,306,750	1,391,690
Less tax equivalents	<u>76,000</u>	<u>79,749</u>	<u>84,524</u>	<u>91,334</u>	<u>96,593</u>
	<u>4,766,798</u>	<u>4,836,866</u>	<u>4,983,397</u>	<u>5,289,759</u>	<u>5,944,496</u>
Total revenue available for bond debt service	<u>3,555,370</u>	<u>4,035,714</u>	<u>4,987,651</u>	<u>4,319,846</u>	<u>5,058,838</u>
Bond debt service	\$ <u>1,732,884</u>	\$ <u>1,724,650</u>	\$ <u>2,425,787</u>	\$ <u>2,287,208</u>	\$ <u>25,000,016</u>
Bond debt service coverage	<u>2.05</u>	<u>2.34</u>	<u>2.06</u>	<u>1.89</u>	<u>2.02</u>

(1) Includes development and connection charges.

**PROJECTED**

Description	2003	2004	2005	2006	2007
Operating revenues (1)	\$ 10,358,157	\$ 11,038,139	\$ 11,758,853	\$ 12,087,678	\$ 12,815,919
Interest & other income	45,820	62,571	21,006	84,306	45,951
Total revenue	10,403,977	11,100,710	11,779,859	12,171,984	12,861,870
Operating expenses	7,550,633	7,855,402	8,224,070	8,656,880	9,028,940
Less depreciation	1,570,184	1,641,849	1,766,981	1,944,908	2,053,041
Less tax equivalents	101,264	104,344	108,858	115,366	121,200
Total revenue available for bond debt service	5,879,185	6,109,209	6,348,231	6,596,606	6,854,699
	4,524,792	4,991,501	5,431,628	5,575,378	6,007,171
Bond debt service	\$ 2,212,731	\$ 2,101,294	\$ 2,518,204	\$ 3,132,597	\$ 3,108,638
Bond debt service coverage	2.04	2.38	2.16	1.78	1.93

(1) Includes development and connection charge.

**JACKSON ENERGY AUTHORITY - WATER DIVISION**  
**REVENUES GENERATED UNDER PRESENT RATES AND**  
**TEN LARGEST CUSTOMERS**  
**(Unaudited)**

**REVENUES GENERATED UNDER PRESENT RATES**

Billing Classification	Total Revenue	Total Customers	Avg. Revenue Per Customer
Residential water (Urban)	\$ 4,150,706	21,194	\$ 196
Residential water (Rural)	1,772,078	7,112	249
Commercial & Industrial water	3,178,624	3,581	888
Wholesale	32,783	2	16,392
Metered well	<u>8,863</u>	1	8,863
Total	<u>\$ 9,143,054</u>		

**TEN LARGEST WATER CUSTOMERS**

Number	Customer Name	Total Usage (Gallons)	Total Water Purchased	Percentage Total Revenue
1	Proctor & Gamble	280,095,000	\$ 237,926	2.60%
2	Jackson Madison County General Hospital	130,204,000	123,635	1.35%
3	Aurora Foods, Inc.	131,415,000	114,179	1.25%
4	Jackson Energy Authority	103,029,400	97,335	1.06%
5	Delta Faucet Company	64,625,000	59,086	0.65%
6	Porter Cable Corp	46,943,400	60,023	0.66%
7	Methodist LeBonheur Healthcare	21,328,600	23,150	0.25%
8	Dal Tile, Inc.	16,684,400	19,295	0.21%
9	County Wide Utility District	22,158,500	23,488	0.26%
10	Devilbiss 1	21,611,400	23,385	0.26%

Unaudited - See independent auditors' report.



# JACKSON ENERGY AUTHORITY - WATER DIVISION

## COMPARATIVE INCOME STATEMENTS

(Unaudited)

Years Ended June 30,

	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>Total operating revenues</b>	\$ 9,324,717	\$ 9,061,762	\$ 9,047,014	\$ 8,135,374	\$ 7,630,873	\$ 7,185,680	\$ 6,824,599	\$ 6,708,329	\$ 6,343,102
<b>Operating expenses</b>									
Operation of systems	700,366	743,679	749,383	673,340	615,651	595,680	607,789	634,266	582,425
Maintenance of systems	144,953	147,813	110,641	76,541	117,755	121,645	165,869	88,127	80,494
Treatment and disposal	616,665	597,831	568,476	570,539	552,425	561,201	485,562	510,154	503,548
Transmission and distribution	1,784,003	1,497,005	1,388,429	1,469,549	1,536,367	1,284,185	1,305,977	1,421,380	954,254
Customer accounting	817,557	653,777	714,270	606,230	518,859	507,279	542,996	482,725	443,634
Taxes, payroll	201,454	187,649	162,821	158,862	159,974	148,030	141,496	144,271	130,369
Tax equivalent	96,593	91,331	84,524	79,749	76,097	72,985	69,451	64,487	59,622
Administrative and general	1,679,499	1,462,006	1,289,377	1,281,805	1,265,830	1,238,464	1,181,297	1,211,769	1,071,642
<b>Total operating expenses</b>	6,041,090	5,381,091	5,067,921	4,916,615	4,842,958	4,529,469	4,500,437	4,557,179	3,825,988
<b>Net operating revenue before depreciation</b>	3,283,627	3,680,671	3,979,093	3,218,759	2,787,915	2,656,211	2,324,162	2,151,150	2,517,114
Depreciation expense	1,391,690	1,306,749	1,190,296	1,054,095	1,035,869	965,215	895,463	731,780	692,872
<b>Net operating revenue</b>	1,891,937	2,373,922	2,788,797	2,164,664	1,752,046	1,690,996	1,428,699	1,419,370	1,824,242
<b>Other income (expense)</b>									
Interest and other income	54,970	115,160	196,173	288,284	115,745	248,873	592,485	23,850	27,494
Bond interest, amortization, and other expense	1,091,659	1,095,977	1,188,970	1,467,505	1,267,148	1,303,163	1,118,252	1,009,024	1,006,990
<b>Total other income (expense)</b>	(1,036,689)	(980,817)	(992,797)	(1,179,221)	(1,151,403)	(1,054,290)	(525,767)	(985,174)	(979,496)
<b>Net income before contributed capital</b>	855,248	1,393,105	1,796,000	985,443	600,643	636,706	902,932	434,196	844,746
Income from contributed capital	1,628,538	434,599	-	-	-	-	-	-	-
<b>Net income before extraordinary item</b>	2,483,786	1,827,704	1,796,000	985,443	600,643	636,706	902,932	434,196	844,746
Extraordinary gain (loss)	-	-	-	-	-	-	-	-	(135,626)
<b>Net income</b>	2,483,786	1,827,704	1,796,000	985,443	600,643	636,706	902,932	434,196	709,120
<b>Retained earnings</b>									
Beginning of year	21,742,872	19,915,165	18,119,165	17,133,722	16,533,079	15,896,373	14,993,441	14,559,245	13,946,860
Prior period adjustments	15,597,161	-	-	-	-	-	-	-	-
<b>Retained earnings</b>									
End of year	\$ 39,823,819	\$ 21,742,869	\$ 19,915,165	\$ 18,119,165	\$ 17,133,722	\$ 16,533,079	\$ 15,896,373	\$ 14,993,441	\$ 14,655,980

Unaudited - See independent auditors' report.

**JACKSON ENERGY AUTHORITY - WATER DIVISION**  
**CUSTOMERS AND REVENUE**  
(Unaudited)

Fiscal Year Ended	Total Customers	Residential				Other		Utility District Revenue	Total Water Sales	Other Operating Revenues	Total Water Operating Revenues	Connection Charges
		Urban		Rural		No. of Customers	Amount of Revenue					
		Customers	Revenue	Customers	Revenue							
June 30												
1984	20,044	16,306	\$ 2,184,060	1,864	\$ 349,766	1,874	\$ 1,109,035	\$ 123,808	\$ 3,766,669	\$ 56,162	\$ 3,822,831	\$ 65,992
1985	20,666	16,792	2,177,408	1,944	339,684	1,930	1,113,492	78,315	3,708,899	54,725	3,763,624	93,492
1986	21,101	16,976	2,181,290	2,051	356,914	2,074	1,210,798	75,073	3,824,075	60,558	3,884,633	92,482
1987	21,404	17,016	2,259,246	2,208	401,487	2,180	1,272,945	89,989	4,023,667	67,906	4,091,573	57,820
1988	21,617	16,991	2,280,556	2,366	439,976	2,260	1,340,812	99,430	4,160,774	71,459	4,232,233	56,638
1989	21,968	17,090	2,300,506	2,544	475,741	2,334	1,497,367	121,285	4,394,899	77,784	4,472,683	78,726
1990	22,346	17,175	2,411,859	2,745	527,430	2,426	1,598,247	107,874	4,645,410	107,626	4,753,036	99,213
1991	22,610	17,247	2,528,847	2,923	608,563	2,440	1,683,693	115,868	4,936,971	109,664	5,046,635	65,402
1992	25,004	17,430	2,553,003	5,033	731,060	2,541	1,812,234	99,260	5,195,557	91,526	5,287,083	148,039
1993	25,572	17,745	2,632,140	5,254	1,100,123	2,573	2,034,319	-	5,766,582	101,717	5,868,299	119,410
1994	25,841	17,686	2,838,798	5,516	1,233,455	2,639	2,161,931	-	6,234,184	108,919	6,343,103	188,256
1995	26,562	17,950	2,901,660	5,732	1,305,258	2,874	2,312,552	-	6,519,470	188,859	6,708,329	194,370
1996	27,225	18,943	3,109,576	5,348	1,242,039	2,934	2,357,328	-	6,708,943	115,656	6,824,599	237,104
1997	27,820	19,911	3,301,385	4,824	1,205,654	3,085	2,557,167	-	7,064,206	121,473	7,185,679	563,497
1998	* 27,620	19,599	3,471,993	4,874	1,152,648	3,147	2,868,715	-	7,493,356	137,516	7,630,872	497,411
1999	28,230	19,975	3,722,383	4,961	1,233,927	3,294	3,025,732	-	7,982,042	153,332	8,135,374	409,499
2000	29,417	20,793	4,053,696	5,261	1,390,354	3,363	3,435,543	-	8,879,593	167,421	9,047,014	413,565
2001	30,145	20,851	4,082,135	5,859	1,482,777	3,435	3,331,528	-	8,896,440	165,322	9,061,762	391,363
2002	31,890	21,194	4,150,706	7,112	1,772,078	3,584	3,220,270	-	9,143,054	181,663	9,324,717	545,290
									\$ 113,344,791	\$ 2,139,288	\$ 115,484,079	\$ 4,317,569

\* Note: At June 30, 1998, the System reflected total customers as the number of metered services rather than number of bills as in previous years.

***JACKSON ENERGY AUTHORITY  
WASTEWATER DIVISION***

**Jackson, Tennessee**

**Financial Statements and Supplementary Information**

**Years Ended June 30, 2002 and 2001**



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Elizabeth A. Acree, CPA  
Dale Cavaness, CPA  
C. Mickey Hannon, CPA  
John E. Hudson, CPA  
Tony R. Jones, CPA

S. Lawson Crain, CPA  
R. Thomas Crenshaw, CPA  
Mark M. Layne, CPA  
Katherine G. Watts, CPA  
Anita C. Hamilton, CPA

Amy K. Santaniello, CPA  
Jason T. Shanes, CPA  
Tamara H. Stanfill, CPA  
Karen L. Taylor, CPA  
Trenton D. Watrous, CPA, CVA  
Roger D. Worrell, CPA

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Jackson Energy Authority  
Jackson, Tennessee

We have audited the balance sheets of Jackson Energy Authority – Wastewater Division and Jackson Utility Division – Wastewater System as of June 30, 2002 and June 30, 2001, respectfully, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements as of and for the period ended June 30, 2002 present only Jackson Energy Authority – Wastewater Division and are not intended to present the combined financial position or combined results of operations of Jackson Energy Authority.

As discussed in Note 1, the financial statements as of and for the period ended June 30, 2001 present only the Jackson Utility Division – Wastewater System and are not intended to present the financial position or results of operations of the City of Jackson, Tennessee, or of any other proprietary or similar trust fund types.

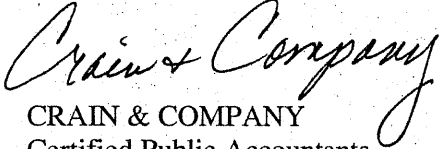
As discussed in Note 16 to the financial statements, the Authority adopted and implemented Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, during the fiscal year ended June 30, 2002.

Independent Auditors' Report  
(Continued)

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Jackson Energy Authority - Wastewater Division and Jackson Utility Division - Wastewater System as of June 30, 2002 and June 30, 2001, respectfully, and the results of their operations and their cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated September 6, 2002 on our consideration of Jackson Energy Authority - Wastewater Division's and Jackson Utility Division - Wastewater System's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information listed as supplemental information and Management's Discussion and Analysis (MD&A) in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Jackson Energy Authority - Wastewater Division or Jackson Utility Division - Wastewater System. The MD&A and Historical Pension Information are required by the GASB, upon which we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation, however, we did not audit the information and express no opinion on it. The other supplemental information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

  
CRAIN & COMPANY  
Certified Public Accountants

Jackson, Tennessee  
September 6, 2002

**Jackson Energy Authority**  
**Management's Discussion and Analysis**  
**June 30, 2002**

**Required Financial Statements**

The Financial Statements of the Jackson Energy Authority report information using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Balance Sheet includes all of the Energy Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the Energy Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the operations over the past year and can be used to analyze the results of the Energy Authority's operation. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash position resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, for what was cash used, and what was the change in cash balance during the reporting period.

This section of the annual financial report presents our analysis of the Wastewater Division's financial performance during the Fiscal Year that ended June 30, 2002. It should be read in conjunction with the financial statements and notes that follow this section.

**Financial Highlights**

- Wastewater Division net assets increased \$1.2 million or 2.26 % over the prior year.
- Revenues decreased by 1.87% to \$9.7 million during fiscal 2002.
- Operating expenses increased to \$8.5 million or 12.06% over fiscal year 2001.
- Capital Contributions to the Division increased to \$1.5 million or 130% over last year.

Fiscal year 2002 is the first period that the Energy Authority applied Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Energy Authority has restated prior periods for purposes of providing comparative data for the Management's Discussion and Analysis. Statement No. 34 requires recording of certain capital assets and in accordance with the Statement, the Wastewater Division has increased net assets as of July 1, 2000 by \$10,266,783 to record donated capital assets. The change also grew the increase in net assets by \$409,755 for the period ended June 30, 2001.

**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

**Financial Analysis**

The following table summarizes the changes in Net Assets between June 30, 2001 and 2002:

**Wastewater Division** (in thousands of dollars):

	<u>2002</u>	<u>2001</u>	<u>% change</u>
Current and Other Assets	\$13,865	\$16,475	(15.84%)
Capital Assets	<u>79,300</u>	<u>76,649</u>	<u>3.46%</u>
<b>Total Assets</b>	<b><u>93,165</u></b>	<b><u>93,124</u></b>	<b><u>.04%</u></b>
Long-Term Debt	34,934	35,627	(1.95%)
Other Liabilities	<u>2,938</u>	<u>3,422</u>	<u>(-14.14%)</u>
<b>Total Liabilities</b>	<b><u>37,872</u></b>	<b><u>39,049</u></b>	<b><u>(3.01%)</u></b>
Invested in Capital Assets, Net of Related Debt	42,897	40,092	7.00%
- Restricted	1,234	1,244	( 0.81%)
- Unrestricted	<u>11,163</u>	<u>12,739</u>	<u>(-12.38%)</u>
<b>Total Net Assets</b>	<b><u>\$55,294</u></b>	<b><u>\$54,075</u></b>	<b><u>2.26%</u></b>

The table indicates that the largest portion of the Wastewater Division's net assets (77.6%) represents its investment in capital assets (e.g. land and easements, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. Another significant portion of the Division's net assets is \$11.16 million in unrestricted net assets, which may be used to meet ongoing obligations. The remaining balance of net assets, \$1.23 million, represents resources subject to external restrictions on how they may be used. Examples of such restrictions include assets in bond and interest sinking funds, assets in debt reserve funds, and unspent bond proceeds in a restricted construction fund.

Net assets of the Wastewater Division increased by \$1.2 million during the current fiscal year. The increase represents capital assets financed primarily from equity, a major component of which is from capital contributions. The increase in the Division's capital assets was \$2.7 million in fiscal year 2002. Current and other assets decreased by \$2.6 million to \$13.9 million in fiscal year 2002.

**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

The following table summarizes the variances in the Statement of Revenues, Expenses and Changes in Net Assets between fiscal years 2001 and 2002:

**Wastewater Division** (in thousands of dollars):

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Operating Revenues	\$ 9,718	\$ 9,918	(2.02%)
Operating Expenses	8,511	7,612	11.81%
Net Operating Income	<b>1,206</b>	<b>2,306</b>	(47.70%)
Interest income & other	346	663	(47.81%)
Interest expense & other	1,869	1,344	39.06%
Income before Contributed Capital	<b>(316)</b>	<b>1,626</b>	(119.43%)
Capital Contributions	1,536	667	130.28%
Change in Net Assets	1,219	2,293	(46.84%)
Total Net Assets – beginning as restated	<u>54,075</u>	<u>51,781</u>	<u>4.43%</u>
Total Net Assets – ending, as restated	<u><b>\$55,294</b></u>	<u><b>\$54,075</b></u>	<u><b>2.25%</b></u>

A close examination of the Statement of Revenues, Expenses, and Changes in Net Assets reveals that the Wastewater Division's revenues decreased \$200,284 or 2.02% from fiscal year 2001 to fiscal year 2002. This reduction in sales revenue was due in part to the negative impact of a softening economy. The division also lost its largest industrial end-user to relocation strategies. Additionally, fewer than normal commercial projects were implemented to expand the system. This slowdown afforded the Wastewater Division an opportunity to direct more attention toward maintaining its operating system. A more concentrated effort toward maintenance coupled with some shifting of joint cost allocations caused an increase in operating and maintenance expense of 12.06% over fiscal year 2001. Additional draws on state revolving loans contributed to an increase in interest expense of \$525,000 over fiscal year 2001. These monies were used to build the new Wastewater treatment plant located on DeLoach Road.



**Jackson Energy Authority**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2002**

**Utility Plant and Debt Administration**

The Wastewater Division's utility plant increased \$2.7 million from \$76.6 million in fiscal year 2001 to \$79.3 million in fiscal year 2002. This investment in capital assets includes land and easements, infrastructure, structures and improvements, vehicles and equipment, general office furniture & fixtures, and construction in progress.

Major capital expenditures during the fiscal year included the following:

- Medina Wastewater System Acquisition
- Rehab Sandy Creek Interceptor
- Completion of Moize Creek Interceptor
- Construction of Middle Fork Wastewater Treatment Plant

At June 30, 2002, the Wastewater Division had long-term debt outstanding of \$34.9 million compared to \$35.6 million in the prior year. The \$34.9 million is primarily comprised of \$14.8 million in notes payable to the State Revolving Loan Fund and \$20.1 million of revenue and revenue refunding bonds. During the year, retirement of debt amounted to \$1.1 million. Additions, accretions and other adjustments amounted to \$0.4 million. A total refunding of all outstanding long-term debt is planned to occur in fiscal year 2003. This refunding is necessary to acquire outstanding debt from the City of Jackson, pursuant to Chapter No. 55 of the Private Acts, 2001.

**Currently Known Facts, Decisions or Conditions**

The Wastewater Division continues to meet or exceed all State and Federal guidelines and requirements for a wastewater system.

A 5% rate increase has been approved and will become effective in October 2002.

An interceptor main will be completed by March 2003 to relieve the existing lagoon treatment for the recently acquired City of Medina wastewater system. This will allow the wastewater to be treated at the Authority's Middle Fork Treatment Plant and will lower treatment operating costs. The interceptor route will also provide a wastewater outlet for an area beginning to develop along the Highway 45 East corridor and for the Town of Three Way.

The Wastewater Division also acquired the Pinson Utility District wastewater system during the fiscal year.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION****BALANCE SHEETS**

	June 30,	
	2002	2001
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,872,233	\$ 4,742,624
Accounts receivable-Customer (less allowance for uncollectible accounts of \$79,919 and \$52,253 for June 30, 2002 and 2001 respectively)	967,026	936,988
Accrued interest receivable	49	432
Materials and supplies	54,435	29,590
Prepaid expenses, miscellaneous receivables and other	28,849	57,991
Current maturities of long-term notes receivable - Water Division	199,992	199,992
Current maturities of long-term notes receivable - Gas Division	<u>1,250,000</u>	<u>2,117,003</u>
Total current assets	<u>7,372,584</u>	<u>8,084,620</u>
<b>Restricted assets</b>		
Bond escrow account		
Cash investment	732,251	732,251
Revenue refunding bond debt service account		
Cash and cash equivalents	1,056,378	1,094,328
Construction retainage - cash and cash equivalents	<u>145,929</u>	<u>487,005</u>
Total restricted assets	<u>1,934,558</u>	<u>2,313,584</u>
<b>Utility plant – at cost</b>		
Wastewater Plant in service and equipment	104,230,086	88,378,149
Less: accumulated depreciation	<u>27,439,381</u>	<u>24,819,011</u>
Total utility plant - at cost	76,790,705	63,559,138
Construction in progress	<u>2,509,714</u>	<u>13,090,236</u>
Utility plant – net	<u>79,300,419</u>	<u>76,649,374</u>
<b>Other assets</b>		
Investments – other	10,000	10,000
Unamortized bond issue cost	124,972	141,037
Unamortized deferred cost – GIS Project	523,108	574,970
Unamortized assets	-	340
Long-term note receivable - Water Division (less current maturities included above)	2,400,056	2,600,048
Long-term note receivable – Gas Division (less current maturities included above)	<u>1,500,000</u>	<u>2,750,000</u>
Total other assets	<u>4,558,136</u>	<u>6,076,395</u>
Total assets	<u>\$ 93,165,697</u>	<u>\$ 93,123,973</u>

## LIABILITIES AND NET ASSETS

	June 30,	
	2002	2001
<b>Liabilities</b>		
Current liabilities (payable from current assets)		
Current maturities of capital leases	\$ 15,885	\$ 17,555
Current maturities of notes payable	483,321	-
Accounts payable	145,929	1,511,165
Other accrued expenses	767,071	397,804
Total current liabilities (payable from current assets)	<u>1,412,206</u>	<u>1,926,524</u>
Current liabilities (payable from restricted assets)		
Current portion of revenue bonds payable (net of unamortized discount of \$31,346 and \$32,464 in 2002 and 2001, respectively)	970,804	912,636
Accrued revenue bond interest	554,777	582,679
Total current liabilities (payable from restricted assets)	<u>1,525,581</u>	<u>1,495,315</u>
Long-term liabilities		
Notes payable (net of current maturities)	14,845,979	14,658,016
Revenue refunding bonds payable (net of unamortized discount of \$163,053 and \$194,399 in 2002 and 2001, respectively and accounting loss on refunding \$117,480 in 2002 and \$168,606 in 2001)	20,073,163	20,944,311
Long-term capital leases	14,615	25,138
Total long-term liabilities	<u>34,933,757</u>	<u>35,627,465</u>
Total liabilities	<u>37,871,544</u>	<u>39,049,304</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	42,896,652	40,091,718
Reserve for bond service	1,233,852	1,243,900
Unrestricted	11,163,649	12,739,051
Total net assets	<u>55,294,153</u>	<u>54,074,669</u>
 Total liabilities and net assets	 <u>\$ 93,165,697</u>	 <u>\$ 93,123,973</u>

See accompanying notes to financial statements.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

	Years Ended June 30,	
	2002	2001
Operating revenue	\$ 9,717,939	\$ 9,918,223
Operating expenses		
Operating expenses (scheduled)	4,657,752	4,175,398
Maintenance expenses (scheduled)	1,222,264	1,087,506
Provision for depreciation (less \$708,858 and \$548,661 for 2002 and 2001, respectively, allocated elsewhere)	2,319,551	2,046,439
Taxes, payroll	203,504	196,119
Tax equivalent	108,728	106,229
Total operating expenses	8,511,799	7,611,691
Net operating income	1,206,140	2,306,532
Nonoperating revenues (expenses)		
Interest and other income	338,133	584,392
Bond interest, amortization and other expense	(1,869,073)	(1,343,878)
Gain (loss) on disposition of fixed assets	8,687	78,787
Total nonoperating revenue (expenses)	(1,522,253)	(680,699)
Income before contributed capital	(316,113)	1,625,833
Capital contributions	1,535,597	667,351
Change in net assets	1,219,484	2,293,184
Total net assets - beginning, as restated	54,074,669	51,781,485
Total net assets - ending, as restated	\$ 55,294,153	\$ 54,074,669

See accompanying notes to financial statements.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2002	2001
Cash provided by (used for) operating activities:		
Receipts from customers	\$ 9,674,277	\$ 9,855,642
Payments to suppliers	(3,403,632)	(2,558,609)
Payments to employees	(2,896,721)	(2,744,640)
Tax equivalent expense paid to City of Jackson	(108,728)	(106,229)
Net cash provided by operating activities	<u>3,265,196</u>	<u>4,446,164</u>
Cash provided by (used for) capital and related financing activities:		
Proceeds from new issuance of long-term debt	870,388	9,911,830
Principal payments on notes payable	(199,103)	-
Principal payments on bonds payable	(945,100)	(890,700)
Bond debt expense paid	(6,308)	-
Principal payments on capital leases	(18,855)	(2,095)
Deferred payments - GIS project	-	(7,886)
Purchase of property, plant and equipment	(4,136,730)	(11,746,880)
Removal cost of fixed assets	(21,196)	(10,667)
Proceeds from salvage of property, plant, and equipment	20,573	94,779
Interest expense	(1,742,481)	(946,108)
Notes receivable receipts - Progas	2,117,003	820,708
Notes receivable receipts - Water	199,992	-
Gain on sale of assets	8,687	-
Cash loaned to Gas System for note receivable	-	(1,500,000)
Net cash used for capital and related financing activities	<u>(3,853,130)</u>	<u>(4,277,019)</u>
Cash provided by (used for) investing activities:		
Interest income	<u>338,516</u>	<u>589,273</u>
Increase (decrease) in cash and cash equivalents	(249,418)	758,418
Cash and cash equivalents at beginning of year	<u>6,323,958</u>	<u>5,565,539</u>
Cash and cash equivalents at end of year	<u>\$ 6,074,540</u>	<u>\$ 6,323,957</u>
Non-cash disclosure:		
Equipment acquired in capital lease	<u>\$ 6,662</u>	<u>\$ -</u>
Contributed capital assets	<u>\$ 1,535,597</u>	<u>\$ 667,351</u>

	Years Ended June 30,	
	2002	2001
Reconciliation of operating revenues to net cash provided by (used for) operating activities:		
Net operating income	\$ 1,206,140	\$ 2,306,532
Adjustments to reconcile net operating revenue to net cash provided by (used for) operating activities:		
Depreciation	3,028,564	2,216,841
Amortization	51,862	53,223
Provision for doubtful accounts	84,996	60,996
Changes in operating assets and liabilities:		
Receivables	(115,033)	(107,229)
Materials and supplies	(24,845)	(508)
Prepaid and other current assets	29,482	9,318
Accounts payable	(1,365,236)	(25,374)
Other accrued expenses	369,266	(67,634)
Net cash provided by operating activities	<u>\$ 3,265,196</u>	<u>\$ 4,446,165</u>

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2002 and 2001**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Jackson Energy Authority (the Authority) was formed July 1, 2001 pursuant to Chapter No. 55 of the Private Acts, 2001 cited as the Jackson Energy Authority Act and, as such, is a political subdivision of the state of Tennessee. The legislation creating the Authority amended the acts that established Jackson Utility Division. The Authority was created as a separate legal entity for the purpose of planning, acquiring, constructing, improving, furnishing, equipping, financing, owning, operating and maintaining electric, gas, water, wastewater and telecommunications utilities systems within or outside the corporate limits City of Jackson, Tennessee and other such utility systems as a municipal water, wastewater, gas, telecommunications or electric utility is authorized by the general laws of the state of Tennessee to own or operate. Upon creation of the Authority, the City of Jackson was authorized to transfer to the Authority all its right, title and interest in and to all the assets operated for the City by Jackson Utility Division. The accompanying financial statements present the financial position, results of operations and cash flows of Jackson Energy Authority – Wastewater Division as of and for the period ended June 30, 2002 and of Jackson Utility Division – Wastewater System as of and for the period ended June 30, 2001.

**Fund Accounting**

Jackson Energy Authority – Wastewater Division uses enterprise fund accounting. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Jackson Utility Division – Wastewater System was an enterprise fund of the City of Jackson, Tennessee, and as such was an integral part of the City of Jackson.

Jackson Energy Authority – Wastewater Division complies with Generally Accepted Accounting Principles (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. As allowed by GASB, Jackson Energy Authority – Wastewater Division has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

**Basis of Accounting**

Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Jackson Energy Authority – Wastewater Division uses and Jackson Utility Division – Wastewater Division used the accrual basis of accounting. Accrual basis accounting requires the recognition of revenues when earned and the recognition of expenses when incurred.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2002 and 2001**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Materials and Supplies Valuation**

Materials and supplies are valued at the lower of cost (first-in, first-out) or market value.

**Utility Plant and Depreciation**

Utility plant records have been maintained on a cost basis since June 19, 1959. Prior to that date, the utility plant was stated at amounts established by the City of Jackson, Tennessee.

Depreciation is calculated by the straight-line method at rates adequate to allocate the cost of applicable assets over their expected useful lives, and includes the amortization of assets accounted for as capital leases.

All acquisitions of property and equipment and all expenditures for repairs, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost.

**Income Taxes**

Jackson Energy Authority was created by state law as a governmental authority and is therefore exempt from federal and state income taxes.

**Bond Discount and Issue Costs**

The Division has capitalized bond discounts and issue costs and is amortizing them over the life of the bond issues.

**Investments**

The Public Act creating the Authority authorizes the following investments:

- (1) Direct obligations of the United States government or any of its agencies;
- (2) Obligations guaranteed as a principal and interest by the United States government or any of its agencies;
- (3) Certificates of deposit and other evidences of deposit at state and federal chartered banks, savings and loan institutions or savings banks deposited and collateralized;
- (4) Repurchase agreements entered into with the United States or its agencies or with any bank, broker-dealer or other such entity so long as the obligation of the obligated party is secured by a perfected pledge of full faith and credit obligations of the United States or its agencies;
- (5) Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified time period with entities rated in one (1) of the two (2) highest rating categories of a nationally recognized rating agency;
- (6) The local government investment pool;



**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2002 and 2001**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments (Continued)**

- (7) Direct general obligations of the state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers and rated in either of the two (2) highest rating categories by a nationally recognized rating agency of such obligations; or
- (8) Obligations of any state of the United States or a political subdivision or instrumentality thereof, secured solely by revenues received by, or on behalf of, the state or political subdivision or instrumentality thereof irrevocably pledged to the payment of the principal and interest of such obligations, rated in the two (2) highest rating categories by a nationally recognized rating agency of such obligations.

**Cash and Cash Equivalents**

The Division considers all highly liquid investments (including restricted assets) with a maturity of three months or less from the date acquired to be a cash equivalent. Cash investments are highly liquid investments but with a maturity of more than three months from the date acquired.

**Interest Costs**

The Division expenses interest when the liability is incurred. Interest cost associated with fixed assets is capitalized when material. Other interest costs are expensed.

**Compensated Absences**

The Division grants annual leave and sick leave based on longevity of service. Employees may accumulate up to 310 hours of annual leave, which is fully vested. Employees are not vested in sick leave until retirement at which time 30 percent of accumulated sick leave is paid to the employee. Starting January 1, 1999, the remaining 70 percent of the employee's accumulated sick leave is credited to the employee's number of years of service. The amount of such additional credit shall be determined by dividing such sick leave hours by 2,080 hours. In no event may such additional credit exceed one additional year of service. A liability of \$559,905 and \$397,803 has been accrued for the years ended June 30, 2002 and 2001, respectively, for future compensated absences earned to date.

**Reclassifications**

Certain reclassifications have been made to the financial statements as of June 30, 2001, to conform with the June 30, 2002, presentation. Such reclassifications have had no effect on the net income for the year ended June 30, 2001, as previously reported.

**Estimates**

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 2 - INSURANCE COVERAGE

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except for catastrophic coverage for fleet vehicles left on the premises overnight, the Division retains the risk of loss to the extent of property damage to such vehicles. The Division carries commercial insurance on all vehicles to mitigate the risk of loss associated with uninsured motorists and liability claims. The Division also carries commercial insurance on company owned vehicles driven by senior administration to mitigate the risk of loss associated with property damage as well as liability claims and uninsured motorists. There were no significant outstanding claims liabilities related to vehicle property damage at June 30, 2002 and 2001. The Division carries commercial insurance for all other risks of income. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurer	Coverage	Expiration Date	Amount of Policy
Affiliated FM Insurance Company	Fire and extended coverage - 90 percent co-insurance		
	Property		\$ 32,817,265
	Contents		10,138,163
	Contractor's equipment		1,048,069
	Communication equip.		396,359
	Flood and earthquake		5,000,000
	Boiler and machinery		10,000,000
	Garaged vehicles		2,349,775
	Transit		100,000
	Accounts receivable		250,000
	Valuable papers		250,000
	Expediting expense		100,000
	Land and water cleanup		100,000
	Cost of construction		1,000,000
	Newly acquired property		1,000,000
	Extra expense	07-01-02	500,000
Great Northern Company	General automobile liability, bodily injury and property damage	07-01-02	1,000,000

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

**NOTE 2 – INSURANCE COVERAGE (Continued)**

<u>Insurer</u>	<u>Coverage</u>	<u>Expiration Date</u>	<u>Amount of Policy</u>
Distributors Insurance Company	Commercial general liability (for claims over \$100,000) individual aggregate	07-01-02	100,000 300,000
Lexington Insurance Company	Excess general liability (for claims over \$100,000 and \$300,000) individual aggregate	07-01-02	900,000 2,700,000
Westchester Fire	Umbrella general liability	07-01-02	5,000,000
Distributors Insurance Company	Worker's Compensation	07-01-02	1,000,000
Zurich American Insurance Company	Pension and benefit fiduciary responsibility	07-01-02	3,000,000
Zurich American Insurance Company	Public officials' and employees' liability	07-01-02	5,000,000
Travelers Insurance Company	Public employee dishonesty	07-01-02	500,000

A Voluntary Employee Benefit Association trust provides medical care and dental insurance coverage for its employees. Based on past experience, the Division pays non-refundable premiums to the trust to be used to pay medical care and dental benefit claims for employees. Claims in excess of \$100,000 are covered by reinsurance. Principal Financial Group is acting as administrator.

# **JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001**

### **NOTE 3 – RETIREMENT PLAN**

The Jackson Energy Authority has a retirement plan covering substantially all of its employees. The retirement plan is a single-employer defined benefit pension plan and is administered by the Jackson Energy Authority Retirement Committee. Aetna Life Insurance Company is the disbursing agent for benefits.

Each employee will enter the plan on the first of the month following the anniversary of his/her hire date and attainment of age 21.

The Plan provides for normal retirement at age 65, early retirement after attainment of age 55 and completion of 5 years of vesting service, delayed retirement beyond normal retirement age and disability retirement upon total and permanent disability after completion of 5 years of vesting service. Upon the death of the participant, survivor benefits are provided depending on the retirement benefit chosen. Article 8 of the Plan document assigns the authority to establish and amend benefit provisions to the Jackson Energy Authority Board of Directors. The Plan issues a stand-alone financial report, which can be obtained from Aetna by calling 1-800-273-6197 and First Tennessee Bank at 1-901-681-2536.

The contribution requirements of plan members and Jackson Energy Authority are established and may be amended by the Jackson Energy Authority Board of Directors as granted by the plan document. Jackson Energy Authority contributes 8.28 percent of annual employee earnings on behalf of plan members. These employer contributions are treated as if they were made by the participant. Jackson Energy Authority is required to contribute an actuarially determined rate. The required actuarially determined contribution rates were 17.65 percent of the projected payroll payable at the end of each month for the period January 1, 2002 to December 31, 2002 and 16.49 percent of the projected payroll payable at the end of each month for the period January 1, 2001 to December 31, 2001.

For the years' ended June 30, 2002 and 2001, Jackson Energy Authority's annual pension cost of \$2,050,871 and \$1,674,417, respectively, was equal to the Authority's required and actual contributions. The required contributions were determined as part of the January 1, 2002 and 2001 actuarial valuations "attained age aggregate cost" funding method. The actuarial assumptions included (a) a 7.5 percent investment rate of return, (b) a projected salary increase of 4.5 percent per year, compounded annually, (c) a 3 percent per annum cost-of-living adjustment and (d) a rate of retirement to extend from ages fifty five to sixty five. The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

<u>Three-Year Trend Information for Jackson Energy Authority</u>			
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2000	\$ 1,703,035	100%	\$ -
June 30, 2001	\$ 1,674,417	100%	\$ -
June 30, 2002	\$ 2,050,871	100%	\$ -

The total retirement costs for the Wastewater Division for the years ended June 30, 2002 and 2001 were \$388,140 and \$308,441, respectively.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

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**NOTE 4 – BONDS PAYABLE**

The following is a summary of bond transactions for the years ended June 30, 2002 and 2001:

	<u>Years Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Bonds payable – beginning of year	\$ 22,252,417	\$ 23,097,409
Add: Capital appreciation accretion on Series 1998B Bonds	48,530	45,708
Less: Payments on 1993 Bond issue	(166,600)	(161,700)
Payments on 1995 Bond issue	(751,500)	(704,250)
Payments on 1998 B Bond issue	<u>(27,000)</u>	<u>(24,750)</u>
Bonds payable – end of year	<u>\$ 21,355,847</u>	<u>\$ 22,252,417</u>

Bonds payable at June 30, 2002 consist of the following:

\$15,871,100 Water and Sewer Division Revenue Refunding Bonds, Series 1993 with principal payable annually on January 1, and interest payable semi-annually on January 1, and July 1, at rates ranging from 4.50% to 5.250% per annum.

\$2,803,500 taxable Water and Sewer Division Revenue Refunding Bonds, Series 1995, with principal payable annually on January 1, and interest payable semi-annually on January 1, and July 1, at rates ranging from 6.15% to 6.45% per annum.

\$2,681,247 Water and Sewer Division Revenue Refunding Bonds, Series 1998B, with principal payable semi-annually on January 1, and July 1, and an additional principal payment of capital appreciation due July 1, 2012 and interest payable semi-annually at rates ranging from 6.00% to 6.30% per annum.

In prior years, the Division defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and the liability for the defeased bonds are not included in the Division's financial statements. On June 30, 2002, \$14,701,500 of bonds outstanding are considered defeased.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION****NOTES TO FINANCIAL STATEMENTS**

(Continued)

**June 30, 2002 and 2001****NOTE 4 – BONDS PAYABLE (Continued)**

The annual service requirements for bond retirements are presented below:

Years Ended June 30,	Series 1993 Bonds		Series 1998B Bonds		Series 1995 Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ 176,400	\$ 812,048	\$ 27,000	\$ 118,724	\$ 798,750	\$ 166,328	\$ 2,099,250
2004	186,200	803,669	29,250	117,076	850,500	115,361	2,102,056
2005	465,500	794,731	31,500	115,292	639,000	60,009	2,106,032
2006	1,430,800	771,456	375,750	108,087	515,250	16,617	3,217,960
2007	1,504,300	699,916	452,250	83,774	-	-	2,740,240
2008	1,582,700	624,701	483,750	54,715	-	-	2,745,866
2009	2,366,700	543,588	506,250	23,956	-	-	3,440,494
2010	3,170,300	422,294	-	-	-	-	3,592,594
2011	3,336,900	259,818	-	-	-	-	3,596,718
2012	1,651,300	84,629	775,497	709,503	-	-	3,220,929
2013	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-
	<u>\$15,871,100</u>	<u>\$ 5,816,850</u>	<u>\$ 2,681,247</u>	<u>\$ 1,331,127</u>	<u>\$ 2,803,500</u>	<u>\$ 358,315</u>	<u>\$28,862,139</u>

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

**NOTE 5 - WASTEWATER RATES IN FORCE AS OF JUNE 30, 2002:**

<u>Monthly Residential Rates</u>				
<u>Thousands of Gallons</u>				
<u>Customer</u>	<u>0 - 500</u>	<u>Next</u>	<u>Over</u>	
<u>Charge</u>		<u>500</u>	<u>1,000</u>	
Wastewater rates per 1,000 gals. of water usage				
Urban RS-1	\$ 2.18	\$ 2.73	\$ 2.46	\$ 1.64
Rural RS-2	2.73	3.42	3.07	2.05

<u>Monthly Commercial and Industrial Rates</u>				
<u>Thousands of Gallons</u>				
<u>Customer</u>	<u>0 - 500</u>	<u>Next</u>	<u>Over</u>	
<u>Charge</u>		<u>500</u>	<u>1,000</u>	
Wastewater rates per 1,000 gals. of water usage				
Urban CS-1	\$ 9.83	\$ 2.95	\$ 2.68	\$ 1.85
Rural CS-2	12.29	3.69	3.34	2.33

The Wastewater Division served 24,986 and 23,940 customers as of June 30, 2002 and 2001, respectively.

# JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 6 – NOTES PAYABLE

The notes payable are summarized as follows:

	<u>June 30, 2002</u>		<u>June 30, 2001</u>	
	<u>Due Within One Year</u>	<u>Due After One Year</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
Note payable, State of Tennessee Revolving Fund (a)	\$ -	\$ 1,319,697	\$ -	\$ 1,288,305
Note Payable, State of Tennessee Revolving Fund (b)	479,304	13,308,840	-	13,369,711
Note Payable, Madison County (c)	<u>4,017</u>	<u>217,442</u>	<u>-</u>	<u>-</u>
	<u>\$ 483,321</u>	<u>\$14,845,979</u>	<u>\$ -</u>	<u>\$14,658,016</u>

- (a) The balance of the note payable – State of Tennessee Revolving Fund at June 30, 2002 represents a draw against a revolving loan with aggregate principal not to exceed \$3,231,970. The loan is being used for the construction of wastewater treatment facilities. Loan repayment plus interest at 3.52% is to begin (1) within 90 days after the Project is operational; or (2) within 120 days after 90% of the Project loan has been disbursed, whichever event occurs earlier. The loan is to be repaid in no more than 240 monthly installments and is secured by City of Jackson sales taxes.
- (b) The balance of the note payable – State of Tennessee Revolving Fund at June 30, 2002 represents a draw against a revolving loan with aggregate principal not to exceed \$14,000,000. The loan is being used for the construction of wastewater treatment facilities. Loan repayment plus interest at 3.9% is to begin (1) within 90 days after the Project is operational; or (2) within 120 days after 90% of the Project loan has been disbursed, whichever event occurs earlier. The loan is to be repaid in no more than 240 monthly installments and is secured by City of Jackson sales taxes.

<u>Year Ended June 30,</u>	<u>Amount</u>	<u>Interest</u>
2003	\$ 479,304	\$ 529,920
2004	498,336	510,888
2005	518,112	491,100
2006	538,692	470,532
2007	560,076	449,136
2008-2012	3,152,136	1,893,924
2013-2017	3,829,632	1,216,476
2018-2022	<u>4,211,856</u>	<u>396,105</u>
	<u>\$ 13,788,144</u>	<u>\$ 5,958,081</u>



# **JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

**June 30, 2002 and 2001**

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### **NOTE 6 – NOTES PAYABLE (Continued)**

- (c) The balance of the note payable due Madison County represents the debt assumed by the Authority in the acquisition of wastewater customers from the Pinson Utility District in south Madison County, Tennessee. The note payable is bearing interest at 3.5% rate for forty years and is payable in monthly payments of \$938.72 and is expected to mature as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 4,017	\$ 7,248
2004	4,151	7,114
2005	4,291	6,974
2006	4,434	6,830
2007	4,583	6,682
2008-2012	25,323	31,000
2013-2017	29,859	26,464
2018-2022	35,208	21,116
2023-2027	41,514	14,809
2028-2032	48,950	7,373
2033-2034	19,129	584
	<u>\$ 221,459</u>	<u>\$ 136,194</u>

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

**NOTE 7 – WASTEWATER PLANT IN SERVICE AND EQUIPMENT  
ADDITIONS AND RETIREMENTS**

	Balance July 1, 2001	Additions	Reclassifi- cations and Retirements	Balance June 30, 2002
Land and land rights	\$ 571,300	\$ 1,001,262	\$ -	\$ 1,572,562
Structures and improvements	23,115,452	9,129,044	(42,428)	32,202,068
Mains, services and meters	46,366,637	2,250,734	(55,854)	48,561,517
Pumping, distribution and treatment	14,142,386	3,112,984	-	17,255,370
Transportation equipment	1,701,078	410,924	(34,884)	2,077,118
Communication equipment	622,456	200,935	(9,075)	814,316
Office furniture and equipment	890,030	92,616	(6,353)	976,293
Tools and miscellaneous equipment	968,810	63,237	(261,205)	770,842
Total	<u>\$ 88,378,149</u>	<u>\$16,261,736</u>	<u>\$ (409,799)</u>	<u>\$ 104,230,086</u>

	Balance July 1, 2000	Additions	Reclassifi- cations and Retirements	Balance June 30, 2001
Land and land rights	\$ 557,710	\$ 13,590	\$ -	\$ 571,300
Structures and improvements	22,702,639	517,537	(104,724)	23,115,452
Mains, services and meters	41,052,661	5,350,305	(36,329)	46,366,637
Pumping, distribution and treatment	13,959,593	411,348	(228,555)	14,142,386
Transportation equipment	1,378,034	527,921	(204,877)	1,701,078
Communication equipment	566,814	55,642	-	622,456
Office furniture and equipment	782,729	114,600	(7,299)	890,030
Tools and miscellaneous equipment	819,939	148,871	-	968,810
Total	<u>\$ 81,820,119</u>	<u>\$ 7,139,814</u>	<u>\$ (581,784)</u>	<u>\$ 88,378,149</u>

# JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2002 and 2001

### NOTE 8- UNCERTAINTIES

The Division is a defendant in several suits which are being defended by the Division's public liability insurer. There is a \$100,000 deductible amount on this insurance. Therefore, any damages awarded under these suits would be the Division's responsibility up to \$100,000. Amounts in excess of \$100,000 would be covered by insurance. Also, workers' compensation suits are being defended by the compensation carrier for the Division.

### NOTE 9 - CASH AND CASH EQUIVALENTS AND CASH INVESTMENTS

At June 30, 2002, cash and cash equivalents and cash investments under the classifications of current and restricted assets consisted of the following:

Description	Amount	Interest Rate	Date Acquired	Maturity Date	Market Value
<b>Current assets</b>					
Cash and cash equivalents					
General cash - UPB	\$ 29,816	n/a	n/a	n/a	\$ 29,816
Operating fund - FB	<u>4,842,417</u>	*	n/a	n/a	4,842,417
Total	<u>\$ 4,872,233</u>				
<b>Restricted assets</b>					
Cash and cash equivalents					
Construction retainage	\$ 145,929	n/a	n/a	n/a	145,929
Debt service account	<u>1,056,378</u>	n/a	n/a	n/a	1,056,378
Total	<u>1,202,307</u>				
Cash investments					
Bond escrow account	<u>732,251</u>	**	10/19/88	07/01/12	732,251
Total restricted assets	<u>\$ 1,934,558</u>				

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

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**NOTE 9 – CASH AND CASH EQUIVALENTS AND CASH INVESTMENTS (Continued)**

At June 30, 2001, cash and cash equivalents and cash investments under the classifications of current and restricted assets consisted of the following:

<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Date Acquired</u>	<u>Maturity Date</u>	<u>Market Value</u>
<b>Current assets</b>					
Cash and cash equivalents					
Operating fund - FB	\$ <u>4,742,624</u>	*	n/a	n/a	\$ 4,742,624
Total	\$ <u>4,742,624</u>				
<b>Restricted assets</b>					
Cash and cash equivalents					
Construction retainage	\$ 487,005	n/a	n/a	n/a	487,005
Debt service account	<u>1,094,328</u>	n/a	n/a	n/a	1,094,328
Total	<u>1,581,333</u>				
Cash investments					
Bond escrow account	<u>732,251</u>	**	10/19/88	07/01/12	732,251
Total	<u>732,251</u>				
Total restricted assets	\$ <u>2,313,584</u>				

Deposits in excess of amounts insured by the Federal Deposit Insurance Corporation are insured by securities held in the Tennessee Collateral Pool. These deposits are category 1 – insured or collateralized with securities held by the entity or by its agent in the entity's name.

\* This is the Authority's general revenue checking account for 2002 and 2001. Each Division reports its share of the account. Interest is earned on the daily revenue fund balance. The interest rate is 103.2 percent of the Federal Reserve Open Market Committee rate as published each Tuesday. This rate applies for one week and is used to calculate the interest on a daily basis. Interest is added to the account monthly. A service fee, based on actual cost, not to exceed \$1,200, is paid each month by the Authority for this banking service.

\*\* The bond escrow account represents excess bond funds. This excess balance is restricted by the Revenue Refunding Bonds, Series 1998B, to secure the 1998B Capital Appreciation Bonds which mature July 1, 2012. These funds will be available for debt service requirements on July 1, 2012. The accreted value of these bonds are included in the Division's bonds payable.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

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**NOTE 10 - DEFERRED COMPENSATION PLAN**

The Division offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Division employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

IRC Section 457 was changed August 20, 1996, to require that all assets and liabilities be held in trust for the exclusive benefit of participants and their beneficiaries. The Division's plan was amended to adopt the required changes. The changes were effective January 1, 1997.

**NOTE 11 - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

In addition to providing pension benefits, the Division provides certain health care, dental and life insurance benefits for retired employees. Substantially all of the Division's employees may become eligible for those benefits if they reach age 55 while working for the Division. The health care and dental benefits are provided by a self-insurance trust plan with an insurance company acting as administrator. Retired employees over the age of sixty-five are covered by a "Medicare carve-out" plan which provides the same benefits, except Medicare is the primary payer. The Plan provides for reinsurance for claims in excess of \$100,000. Not all of the retired employees are eligible for dental benefits.

The cost of health care and dental benefits is \$447,826 and \$382,295 for the years ended June 30, 2002 and 2001, respectively. The cost of providing the health care and dental benefits for thirty-five and twenty-four retirees for the years ended June 30, 2002 and 2001, respectively, is not separable from the cost of providing the health care and dental benefits for sixty-nine and seventy-two active employees for the years ended June 30, 2002 and 2001, respectively. The cost of the life insurance benefits is \$15,082 and \$26,320 for the years ended June 30, 2002 and 2001, respectively. The cost of providing the life insurance benefits for thirty-five and twenty-four retirees for the years ended June 30, 2002 and 2001, respectively, is not separable from the cost of providing life insurance benefits for sixty-nine and seventy-two employees for the years ended June 30, 2002 and 2001, respectively.

**NOTE 12 - GEOGRAPHIC OPERATIONS**

The Division's operations primarily are within the City of Jackson, Madison County and adjoining areas and it derives its revenue primarily from user charges to customers within these areas.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002 and 2001**

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**NOTE 13 – CAPITAL LEASES**

The division leases various office equipment with lease terms through June 2005. The capital leases have been recorded as an obligation in the accompanying financial statements at the present value of future minimum lease payments discounted at various interest rates.

Obligations under capital leases consist of the following at June 30,

	<u>2002</u>	<u>2001</u>
Total	\$ 30,500	\$ 42,693
Less: Current portion	<u>15,885</u>	<u>17,555</u>
Long-term portion	<u>\$ 14,615</u>	<u>\$ 25,138</u>

The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments are as follows for the years ended June 30,

2003	\$ 16,778
2004	14,600
2005	618
2006	-
2007	-
Thereafter	<u>-</u>
Total future minimum lease payments	31,996
Less: amount representing interest	<u>1,496</u>
Present value of future minimum lease payments	<u>\$ 30,500</u>

**NOTE 14 – ACCOUNTING CHANGE**

As of July 1, 2000, the Authority adopted Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 requires recording of certain capital assets and in accordance with the Statement, the Wastewater Division has increased net assets as of July 1, 2000 by \$10,266,783 to record donated capital assets. The change also increased the increase in net assets by \$409,755 for the period ended June 30, 2001.

**NOTE 15 – INTERDEPARTMENTAL RENT EXPENSE**

For 2002 and 2001, the Division paid rent to the Electric Division of \$4,404 and \$3,468, respectively, for the use of the mainframe computer, larger copier and miscellaneous equipment.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**  
**June 30, 2002, and 2001**

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**NOTE 16 – NOTES RECEIVABLE – GAS DIVISION**

One note receivable – Gas Division consists of \$1,250,000 payable in one installment on July 1, 2002. Interest will be paid monthly at a rate of 7.00 percent.

Another note receivable – Gas Division consists of \$1,500,000 payable in one installment on July 1, 2002. Interest will be paid monthly at a rate of 7.00 percent.

**NOTE 17 – NOTE RECEIVABLE – WATER DIVISION**

One note receivable – Water Division consists of \$2,600,048 payable in monthly installments of \$16,666. There is no interest being charged.



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Elizabeth A. Acree, CPA  
Dale Cavanaugh, CPA  
C. Mickey Hannon, CPA  
John E. Hudson, CPA  
Tony R. Jones, CPA

S. Lawson Crain, CPA  
R. Thomas Crenshaw, CPA  
Mark M. Layne, CPA  
Katherine G. Watts, CPA  
Anita C. Hamilton, CPA

Amy K. Santaniello, CPA  
Jason T. Shanes, CPA  
Tamara H. Stanfill, CPA  
Karen L. Taylor, CPA  
Trenton D. Watrous, CPA, CVA  
Roger D. Worrell, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Jackson Energy Authority  
Jackson, Tennessee

We have audited the financial statements of the Jackson Energy Authority - Wastewater Division and Jackson Utility Division - Wastewater System as of and for the years ended June 30, 2002 and 2001, respectfully, and have issued our report thereon dated September 6, 2002. We conducted our audits in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Jackson Energy Authority - Wastewater Division's and Jackson Utility Division - Wastewater System's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Jackson Energy Authority - Wastewater Division's and Jackson Utility Division - Wastewater System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

26 SECURITY DRIVE • JACKSON, TENNESSEE 38305

PHONE: 731.668.7070 • FAX: 731.668.1218 • TOLL FREE: 877.892.7070 • [www.craincpa.com](http://www.craincpa.com) • E-MAIL: [craininfo@craincpa.com](mailto:craininfo@craincpa.com)



Independent Auditors' Report on Compliance and on  
Internal Control over Financial Reporting Based on an  
Audit of Financial Statements Performed in Accordance  
With *Government Auditing Standards* (Continued)

This report is intended for the information of the Board of Directors, management and government regulatory and granting agencies, and it is not intended to be and should not be used by anyone other than those specified parties.

*Crain & Company*  
CRAIN & COMPANY  
Certified Public Accountants

Jackson, Tennessee  
September 6, 2002

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2002**

<u>State Grantor Agency</u>	<u>Grant Amount</u>	<u>State Contract #</u>	<u>Receiveable Balance July 01, 2001</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Receiveable Balance June 30, 2002</u>
Tennessee Department of Economic & Community Development	\$ 86,710	Z02-008480-00	\$ -	\$ 29,563	\$ 29,563	\$ -
Tennessee Department Of Economic & Community Development	\$ 251,957	Z99-091768-00	\$ -	\$ 14,394	\$ 14,394	\$ -
	\$ 338,667		\$ -	\$ 43,957	\$ 43,957	\$ -

See accompanying notes to the schedule of expenditures of state awards.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**NOTE TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2002**

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of State Financial Assistance summarizes the expenditures of Jackson Energy Authority – Wastewater Division under programs of the state government for the year ended June 30, 2002. The Schedule is presented using the accrual basis of accounting.

**SUPPLEMENTARY INFORMATION**

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION****HISTORICAL PENSION INFORMATION****June 30, 2002**

	January 1,			
	1993	1994	1995	1996
(1) Pension benefit obligation	\$ 32,450,851	\$ 35,287,736	\$ 38,518,851	\$ 42,199,778
(2) Net assets available for benefits	\$ 20,108,384	\$ 21,992,047	\$ 23,796,754	\$ 26,644,006
(3) Percent - (2) divided by (1)	61.97%	62.32%	61.77%	63.14%
(4) Unfunded pension benefit obligation (1) minus (2)	\$ 12,342,467	\$ 13,295,689	\$ 14,722,097	\$ 15,555,772
(5) Annual covered payroll	\$ 7,596,998	\$ 7,878,863	\$ 7,977,673	\$ 8,753,084
(6) Percent - (4) divided by (5)	162.47%	168.75%	184.54%	177.74%

An actuarial valuation is performed annually. The information presented above is taken from those reports and is supplementary information required by the Governmental Accounting Standards Board.

January 1,					
1997	1998	1999	2000	2001	2002
\$ 44,897,959	\$ 48,868,864	\$ 54,727,249	\$ 58,727,249	\$ 64,995,256	\$ 71,340,653
\$ 29,467,137	\$ 33,343,880	\$ 38,092,794	\$ 42,543,267	\$ 45,348,868	\$ 47,914,966
65.63%	68.23%	69.60%	72.44%	69.77%	67.16%
\$ 15,430,822	\$ 15,524,984	\$ 16,634,455	\$ 16,183,982	\$ 19,646,388	\$ 23,425,687
\$ 9,061,874	\$ 9,949,845	\$ 10,744,593	\$ 11,117,696	\$ 11,302,548	\$ 12,876,865
170.28%	156.03%	154.82%	145.57%	173.82%	181.92%

- a. The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial finding method, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.
- b. Looking at the pension benefit obligation, or the unfunded portion of the pension benefit obligation, in isolation can be misleading.
  - (i) Expressing net assets available for benefits as a percentage of the pension benefit obligation (line 3) provides one indication of the extent to which a plan is funded. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.
  - (ii) Expressing the unfunded pension benefit obligation as a percentage of the annual covered payroll (line 6) approximately adjusts for the effects of inflation and aids analysis of funding progress. Generally, the smaller the unfunded percentage, the stronger the plan.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**OPERATING EXPENSES**

	Years Ended June 30,	
	2002	2001
Operating expenses		
Pumping		
Supervision and engineering	\$ 437	\$ 2,331
Labor	25,327	34,968
Purchased power	39,600	51,844
Miscellaneous	6,489	4,225
Total pumping	<u>71,853</u>	<u>93,368</u>
Treatment and disposal		
Supervision and engineering	91,697	92,105
Labor	1,213,841	1,232,264
Chemicals	46,578	45,705
Miscellaneous	332,303	97,815
Total treatment and disposal	<u>1,684,419</u>	<u>1,467,889</u>
Transmission and distribution		
Supervision and engineering	120,396	78,591
Storage facilities expense	-	-
Line expense	146,022	172,970
Meter expense	61,943	47,486
Miscellaneous	209,766	206,814
Customer installation	41,783	77,260
Total transmission and distribution	<u>579,910</u>	<u>583,121</u>
Customer accounts		
Supervision	14,710	11,783
Meter reading	72,018	67,282
Billing and collection	261,436	217,099
Uncollectable accounts	84,996	60,996
Data processing	146,348	139,941
Assistance expense	177,615	157,781
Total customer accounts	<u>757,123</u>	<u>654,882</u>
Administrative and general		
Salaries	416,482	373,674
Office supplies and expense	143,849	132,699
Professional service	33,057	49,533
Insurance	126,071	130,078
Employees' benefits	800,592	663,396
Miscellaneous	39,992	22,020
Rent	4,404	4,738
Total administrative and general	<u>1,564,447</u>	<u>1,376,138</u>
Total operating expenses	<u>\$ 4,657,752</u>	<u>\$ 4,175,398</u>

See independent auditors' report.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**MAINTENANCE EXPENSES**

	Years Ended June 30,	
	2002	2001
Maintenance expenses		
Pumping		
Supervision and engineering	\$ 238	\$ 2,331
Structures and improvements	550	969
Pumping equipment	<u>114,692</u>	<u>120,574</u>
Total pumping	<u>115,480</u>	<u>123,874</u>
Treatment and disposal		
Supervision and engineering	15,451	9,325
Structures and improvements	12,130	19,236
Treatment and disposal equipment	<u>350,360</u>	<u>366,428</u>
Total treatment and disposal	<u>377,941</u>	<u>394,989</u>
Transmission and distribution		
Supervision and engineering	20,432	25,502
Structures and improvements	900	3,925
Mains and services	623,703	468,617
Services meters and hydrants	<u>24,833</u>	<u>25,728</u>
Total transmission and distribution	<u>669,868</u>	<u>523,772</u>
Administrative and general	<u>58,975</u>	<u>44,871</u>
Total maintenance expenses	<u>\$ 1,222,264</u>	<u>\$ 1,087,506</u>

See independent auditors' report.



**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE**  
(Unaudited)  
Years Ended June 30,

**HISTORICAL**

Description	1998	1999	2000	2001	2002
Operating revenues (1)	\$ 9,669,834	\$ 10,223,268	\$ 10,657,014	\$ 10,175,818	\$ 11,253,536
Interest and other income	<u>334,961</u>	<u>283,763</u>	<u>234,508</u>	<u>662,108</u>	<u>342,452</u>
Total revenue	<u>10,004,795</u>	<u>10,507,031</u>	<u>10,891,522</u>	<u>10,837,926</u>	<u>11,595,988</u>
Operating expenses	6,503,832	6,620,398	6,987,662	7,611,691	8,511,799
Less depreciation	1,552,282	1,585,168	1,864,264	2,046,440	2,319,551
Less tax equivalents	<u>90,220</u>	<u>95,190</u>	<u>101,211</u>	<u>106,229</u>	<u>108,728</u>
Total revenue available for bond debt service	<u>4,861,330</u>	<u>4,940,040</u>	<u>5,022,187</u>	<u>5,459,022</u>	<u>6,083,520</u>
Bond debt service	<u>5,143,465</u>	<u>5,566,991</u>	<u>5,869,335</u>	<u>5,378,904</u>	<u>5,512,468</u>
Bond debt service	\$ <u>2,147,437</u>	\$ <u>4,453,000</u>	\$ <u>2,410,374</u>	\$ <u>2,529,527</u>	\$ <u>2,881,259</u>
Bond debt service coverage	<u>2.40</u>	<u>2.95</u>	<u>2.44</u>	<u>2.13</u>	<u>1.91</u>

**PROJECTED**

Description	2003	2004	2005	2006	2007
Operating revenues (1)	\$ 10,488,041	\$ 11,103,377	\$ 11,508,165	\$ 11,809,422	\$ 12,199,173
Interest and other income	<u>246,670</u>	<u>68,464</u>	<u>78,292</u>	<u>78,584</u>	<u>78,531</u>
Total revenue	<u>10,734,711</u>	<u>11,171,841</u>	<u>11,586,457</u>	<u>11,888,006</u>	<u>12,277,704</u>
Operating expenses	8,808,094	9,115,760	9,434,720	9,782,580	10,184,895
Less depreciation	2,332,623	2,390,662	2,427,145	2,464,418	2,528,729
Less tax equivalents	<u>108,664</u>	<u>109,086</u>	<u>112,502</u>	<u>118,372</u>	<u>123,165</u>
Total revenue available for bond debt service	<u>6,366,807</u>	<u>6,616,012</u>	<u>6,895,073</u>	<u>7,199,790</u>	<u>7,533,001</u>
Bond debt service	<u>4,367,904</u>	<u>4,555,829</u>	<u>4,691,384</u>	<u>4,688,216</u>	<u>4,744,703</u>
Bond debt service	\$ <u>1,362,230</u>	\$ <u>3,204,288</u>	\$ <u>3,203,658</u>	\$ <u>3,202,192</u>	\$ <u>3,201,348</u>
Bond debt service coverage	<u>3.21</u>	<u>1.42</u>	<u>1.46</u>	<u>1.46</u>	<u>1.48</u>

(1) Connection charges included in operating revenues.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**REVENUES GENERATED UNDER PRESENT RATES AND**  
**TEN LARGEST CUSTOMERS**  
**(Unaudited)**

**REVENUES GENERATED UNDER PRESENT RATES**

Billing Classification	Total Revenue	Total Customers	Avg. Revenue Per Customer
Residential wastewater (Urban)	\$ 4,492,483	21,138	\$ 213
Residential wastewater (Rural)	260,982	1,116	234
Commercial & Industrial wastewater	<u>4,697,308</u>	2,732	1,719
Total	<u>\$ 9,450,773</u>		

**TEN LARGEST WASTEWATER CUSTOMERS**

##	Customer Name	Total Usage (Gallons)	Wastewater Treated	Percentage Total Revenue
1	Procter & Gamble	164,344,000	\$ 386,804	4.09%
2	Aurora Foods, Inc.	120,201,000	244,490	2.59%
3	Jackson Madison County General Hospital	101,472,000	209,169	2.21%
4	Owens Corning	731,089,000	146,949	1.55%
5	Delta Faucet Company	64,625,000	130,279	1.38%
6	Porter Cable	44,145,700	114,180	1.21%
7	Devilbiss #1	21,174,500	49,896	0.53%
8	Valspar Corp	20,110,200	48,902	0.52%
9	Ormet Aluminum	2,095,000	47,899	0.51%
10	Union University	17,280,000	43,193	0.46%

Unaudited - See independent auditors' report.

# JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION

## COMPARATIVE INCOME STATEMENTS

(Unaudited)

Years Ended June 30,

	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>Total operating revenues</b>	\$ 9,717,939	\$ 9,918,222	\$ 10,133,707	\$ 9,633,140	\$ 9,183,377	\$ 8,720,853	\$ 7,965,683	\$ 7,792,164	\$ 7,550,002
<b>Operating expenses</b>									
Operation of systems	71,807	93,368	106,270	130,057	104,126	118,566	90,338	75,404	76,931
Maintenance of systems	115,481	123,874	140,241	112,866	117,086	68,648	76,317	117,719	88,401
Treatment and disposal	2,062,406	1,862,876	1,731,702	1,759,096	1,718,778	1,652,356	1,612,915	1,767,851	1,760,590
Transmission and distribution	1,249,778	1,106,893	981,022	1,009,640	1,047,798	926,653	936,273	832,894	716,487
Customer accounting	757,122	654,882	598,431	568,535	461,507	432,744	457,843	432,287	386,420
Taxes, payroll	203,504	196,119	170,186	160,356	152,540	133,360	134,006	124,166	114,346
Tax equivalent	108,728	106,229	101,211	95,190	90,220	86,119	83,256	80,136	77,191
Administrative and general	1,623,422	1,421,009	1,294,336	1,199,490	1,259,495	1,226,522	1,236,119	1,146,281	872,424
<b>Total operating expenses</b>	6,192,248	5,565,250	5,123,399	5,035,230	4,951,550	4,644,968	4,627,067	4,576,738	4,092,790
<b>Net operating revenue before depreciation</b>	3,525,691	4,352,972	5,010,308	4,597,910	4,231,827	4,075,885	3,338,616	3,215,426	3,457,212
Depreciation expense	2,319,551	2,046,440	1,864,264	1,585,168	1,552,282	1,452,262	1,397,950	1,291,164	1,221,244
<b>Net operating revenue</b>	1,206,140	2,306,532	3,146,044	3,012,742	2,679,545	2,623,623	1,940,666	1,924,262	2,235,968
<b>Other income (expense)</b>									
Interest and other income	346,820	663,178	236,921	288,781	338,914	254,826	184,923	305,564	275,264
Bond interest, amortization, and other expense	1,869,073	1,343,877	1,414,392	1,650,527	1,685,371	1,719,675	1,673,117	1,672,956	1,672,407
<b>Total other income (expense)</b>	(1,522,253)	(680,699)	(1,177,471)	(1,361,746)	(1,346,457)	(1,464,849)	(1,488,194)	(1,367,392)	(1,397,143)
<b>Net income before contributed capital</b>	(316,113)	1,625,833	1,968,573	1,650,996	1,333,088	1,158,774	452,472	556,870	838,825
Income from contributed capital	1,535,597	257,596	-	-	-	-	-	-	-
<b>Net income</b>	1,219,484	1,883,429	1,968,573	1,650,996	1,333,088	1,158,774	452,472	556,870	838,825
Extraordinary gain (loss)	-	-	-	-	-	-	-	-	(2,243,778)
<b>Retained earnings</b>									
Beginning of year	22,673,435	20,790,006	18,821,433	17,170,437	15,837,349	14,678,575	14,226,103	13,669,233	15,555,662
Prior period adjustments	31,401,234	-	-	-	-	-	-	-	(481,476)
<b>Retained earnings</b>									
End of year	\$ 55,294,153	\$ 22,673,435	\$ 20,790,006	\$ 18,821,433	\$ 17,170,437	\$ 15,837,349	\$ 14,678,575	\$ 14,226,103	\$ 13,669,233

Unaudited - See independent auditors' report.

**JACKSON ENERGY AUTHORITY - WASTEWATER DIVISION**  
**CUSTOMERS AND REVENUE**  
(Unaudited)

Fiscal Year Ended June 30	Total		Residential		Other Customers		Total		Other		Total		Wastewater		Connection	
	Customers	Revenue	Urban Customers	Urban Revenue	No. of Customers	Amount of Revenue	Sewer Sales	Operating Revenues	Operating Revenues	Charges	Sewer Sales	Operating Revenues	Operating Revenues	Charges	Charges	Charges
1984	17,065	\$ 1,712,660	15,402	\$ 1,712,660	1,663	\$ 1,029,926	\$ 2,742,586	\$ 45,128	\$ 2,787,714	\$ 347,270	\$ 2,742,586	\$ 2,787,714	\$ 347,270	\$ 347,270	\$ 347,270	\$ 347,270
1985	18,571	1,908,062	16,800	1,908,062	1,771	1,126,844	3,034,906	48,763	3,083,669	181,319	3,034,906	3,083,669	181,319	181,319	181,319	181,319
1986	19,046	2,386,090	17,189	2,386,090	1,857	1,732,406	4,118,496	60,314	4,178,810	209,959	4,118,496	4,178,810	209,959	209,959	209,959	209,959
1987	19,275	2,691,902	17,349	2,691,902	1,926	2,146,206	4,838,108	71,658	4,909,766	149,393	4,838,108	4,909,766	149,393	149,393	149,393	149,393
1988	19,388	3,067,162	17,413	3,067,162	1,975	2,352,357	5,419,519	79,559	5,499,078	116,138	5,419,519	5,499,078	116,138	116,138	116,138	116,138
1989	19,639	3,377,876	17,609	3,377,876	2,030	2,890,341	6,268,217	89,326	6,357,543	146,657	6,268,217	6,357,543	146,657	146,657	146,657	146,657
1990	19,896	3,431,644	17,821	3,431,644	2,075	2,961,474	6,393,118	105,023	6,498,141	231,601	6,393,118	6,498,141	231,601	231,601	231,601	231,601
1991	20,189	3,529,385	18,050	3,529,385	2,139	3,136,876	6,666,261	99,978	6,766,239	245,688	6,666,261	6,766,239	245,688	245,688	245,688	245,688
1992	20,580	3,588,822	18,339	3,588,822	2,241	3,269,334	6,858,156	83,298	6,941,454	132,327	6,858,156	6,941,454	132,327	132,327	132,327	132,327
1993	20,967	3,655,299	18,766	3,655,299	2,201	3,404,512	7,059,811	97,010	7,156,821	98,711	7,059,811	7,156,821	98,711	98,711	98,711	98,711
1994	21,101	3,783,838	17,649	3,783,838	2,214	3,667,940	7,451,778	98,224	7,550,002	191,851	7,451,778	7,550,002	191,851	191,851	191,851	191,851
1995	21,599	3,900,456	17,937	3,900,456	2,261	3,789,581	7,690,037	102,128	7,792,165	295,685	7,690,037	7,792,165	295,685	295,685	295,685	295,685
1996	22,334	4,049,446	18,864	4,049,446	2,331	3,773,787	7,823,233	142,450	7,965,683	380,174	7,823,233	7,965,683	380,174	380,174	380,174	380,174
1997	22,819	3,995,852	19,832	3,995,852	2,987	4,549,465	8,545,317	175,536	8,720,853	573,425	8,545,317	8,720,853	573,425	573,425	573,425	573,425
1998 *	22,612	4,168,028	19,637	4,168,028	2,975	4,847,394	9,015,422	167,955	9,183,377	322,349	9,015,422	9,183,377	322,349	322,349	322,349	322,349
1999	22,873	4,391,642	19,873	4,391,642	3,000	5,037,233	9,428,875	204,265	9,633,140	450,929	9,428,875	9,633,140	450,929	450,929	450,929	450,929
2000	23,804	4,516,856	20,724	4,516,856	3,080	5,366,495	9,883,351	250,355	10,133,706	284,865	9,883,351	10,133,706	284,865	284,865	284,865	284,865
2001	23,940	4,613,948	20,792	4,613,948	3,148	5,067,961	9,681,909	236,313	9,918,222	256,537	9,681,909	9,918,222	256,537	256,537	256,537	256,537
2002	24,986	4,492,483	21,138	4,492,483	3,848	4,958,290	9,450,773	267,165	9,717,938	166,318	9,450,773	9,717,938	166,318	166,318	166,318	166,318
								\$ 2,424,448	\$ 134,794,321	\$ 4,781,196						

\* At June 30, 1998 and 1999, the System reflected total customers as the number of metered services rather than number of bills as in previous years.